THE UNIVERSITY OF ALBERTA

THE ECONOMIC IMPACTS OF OCCUPATIONAL INJURY PROGRAMS
FOR ALBERTA

by

CHRISTINA A. S. NOWAK

A THESIS

SUBMITTED TO THE FACULTY OF GRADUATE STUDIES
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE
OF MASTER OF ARTS

DEPARTMENT OF ECONOMICS

EDMONTON, ALBERTA
FALL, 1977

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THE ECONOMIC EFFECTS OF GUARANTEED INCOME PROPOSALS
FOR CANADA
by
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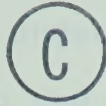
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The undersigned certify that they have read, and
recommend to the Faculty of Graduate Studies for acceptance,
a thesis entitled The Economic Effects of Guaranteed Income
Proposals for Canada, submitted by Christine A. H. Lomas,
in partial fulfilment of the requirements for the degree of
Master of Arts.

Abstract

The purpose of this thesis is to examine the economic effects of a guaranteed income proposal for Canada. Starting with a short discussion of poverty, the present measures of social welfare are examined with emphasis on the advantages and problems involved in this program. This is followed by a comparison of alternatives to this system, concentrating on guaranteed income proposals.

The effects of guaranteed income proposals, specifically those of Milton Friedman (Negative Income Tax) and Robert Theobald (Basic Economic Security), on the distribution of income in Canada are then examined, with special attention given to comparisons with the present measures of social welfare.

Finally, there is a discussion of other economic effects which guaranteed income proposals may have, notably, effects on work effort and incentive.

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Chapter 1 - Introduction

The purpose of this thesis is to examine the effects
of alternative guaranteed income proposals on the distribu-
tion of income in Canada. It is very difficult to compare
theoretical proposals of income redistribution to a system
already in operation, such as the Canadian program of welfare
and transfer payments. An economist can delineate the
probable effects and costs of a new scheme but cannot make
a value judgement as to whether or not it should be implemented:
this is a political decision. The acceptance of any scheme
depends directly on the relative importance of the costs and
the benefits to be derived from the program. Because of this,
the two alternative proposals of guaranteed income developed
in this thesis are compared, using a modified cost-benefit
framework, to the present system of redistributing income.

Why should we study guaranteed income proposals?
The Canadian government currently has a number of programs,
the purposes of which are to redistribute income, that is, to
take spending power away from some part of the population
and redistribute it towards the lower income groups. The
government has, therefore, made an implied commitment to
provide a minimum level of income to all individuals, but
the present mosaic of measures designed to ensure this result
is deemed both excessively complex and unduly costly. It is
therefore argued that it would be desirable to introduce a
single plan to meet the implied commitment of the government

as simply and cheaply as possible through the introduction
of an income floor for all those who cannot, or should not,
for a variety of reasons, earn their living through the
normal methods.

Until recent years, the government has followed
traditional policies of redistribution by taxation, by
transfer payments to certain categories of the citizenry,
for example, the aged, the blind and the disabled, and by
certain expenditure programs, for example, medicare schemes
and public housing expenditures. However, under this system,
there has been overlapping of categories and, in many cases,
needy persons have not qualified for any of the available
transfers.

In recent years, more and more notice has been given
to a new type of redistributive program--that of guaranteed
income. This system would alleviate the above-mentioned
problem by giving, as a matter of right, extra income to
needy families and individuals, not because they are old or
blind, but because they are poor. This would also solve
the problem of families who suffer, not from a lack of income,
but from an insufficiency of income. Approximately 70 per
cent of all non-farm families who were considered to be poor
by the Economic Council of Canada had income of some kind.[1]

This new type of redistributive program has been

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[1]Economic Council of Canada, Fifth Annual Review
(Ottawa: Queen's Printer, 1968), p. 112.

mentioned, and occasionally, theoretically examined, in a
number of articles over many years, but it has only been
recently that it has been seriously considered as a practical
alternative to the system of transfers now in effect. The
Economic Council of Canada has recommended that the "Possi-
bility of their usefulness for Canada be subjected to
serious and thorough study";[1] and the Brookings Institution
has held a conference of experts to determine the possibility
of implementing such programs.[2]

Following the advice of the Economic Council of
Canada, this thesis attempts an evaluation of two different
methods of redistributing income through a guaranteed income
plan: the two plans are negative income tax and social
dividend taxation, and their effects on the distribution of
income in Canada is examined.

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[1] Ibid., p. 134.

[2] For a summary of this conference, which took place
June 8-9, 1966, see C. Green, Negative Taxes and the Poverty
Problem (Washington, D.C.: The Brookings Institution, 1967),
Chapter X.

Chapter 2 - The Problem of Poverty

Canada could be, and often is, referred to as an affluent society. In a land as wealthy in resources, both material and human, as Canada seems to be, is there any need for improving the battery of provisions for poverty that now exist? The answer seems to be an unqualified yes! Poverty can be separated into two types, absolute and relative. Absolute poverty may be defined as poverty which is serious enough to cause severe physical suffering and, in the extreme case, death. Relative poverty, on the other hand, is deprivation in the conditions of social existence serious enough to impede normal human relationships. For example, certain standards of consumption, including housing, clothing, transportation, entertainment, and education, may be pre-requisites to acceptance in social groups.[1] The welfare programs now in existence strike mainly at absolute poverty. For example, D.B. Smith states that, "We don't let him or his family actually starve, a multitude of welfare measures see to that. We provide a marginal existence which is guaranteed to break any spirit and create marginal people."[2]

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[1]Incidentally, this need may very well account for the tendency of some poor people to purchase expensive auto-mobiles and clothing while neglecting nutritional and medical needs. There is a point at which acceptance by society is more important to us than even physical health and survival.

[2]D.B. Smith, "A Simplified Approach to Social Welfare," Canadian Tax Journal, Vol. 13 (June, 1965), p. 260.

In a democratic country such as Canada, there is a predeliction towards equality, both political and economic. Equality in the economic sense can refer to: (1) actual equality in welfare at any given time; (2) equality of opportunity; and/or (3) maximum welfare to all members of society.[1]

The present distribution of income in Canada is shown in a Lorenz curve, Figure 2-1 and Table 2-1. It can be seen from this curve that there is a large discrepancy from perfect equality of income. This curve shows the distribution of income for families and unattached individuals. A curve showing distribution of income on a per capita basis would show even more inequality, and a curve showing distribution of wealth still greater inequality. There are some socio-logical, psychological, and economic justifications for significant inequalities in income and wealth. For example, a higher income, or large wealth holdings, facilitate risk-taking, a necessity in a capitalistic society. Keynes states that,"there are valuable human activities which require the motive of money-making and private wealth ownership for their full fruition."[2] Friedman feels that inequality of income provides an independent focus of power to offset the

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[1]Maximum welfare does not necessarily imply actual equality of income unless all have the same marginal propensity to enjoy income.

[2]J.M. Keynes, The General Theory of Employment, Interest and Money (London: McMillan & Co., Ltd., 1936), p. 374.

Table 2-1

Income Distribution of Families and Individuals, including transfers

Urban and Rural Non-farm, Canada, 1961

| | | | Cumulative | |
Income Class (1)	Per Cent of People (2)	Per Cent of Income (3)	Per Cent of People (4)	Per Cent of Income (5)
Without Income	.9	—	.9	—
Under $1000	6.2	1.5	7.1	1.5
$1000 - $1999	8.0	3.7	15.2	5.2
$2000 - $2999	10.4	6.5	25.5	11.7
$3000 - $3999	15.0	11.4	40.5	23.1
$4000 - $4999	16.2	13.4	56.7	36.6
$5000 - $5999	13.4	12.9	70.0	49.5
$6000 - $6999	9.1	10.5	79.2	60.0
$7000 - $7999	6.2	8.2	85.4	68.2
$8000 - $9999	6.8	10.5	92.2	78.7
$10000 - $15000	5.3	10.3	97.5	89.0
Over $15000	2.5	11.0	100.0	100.0
Total	100.0	100.0	—	—

Derived from: Tables A-1 to A-6, Appendix A.
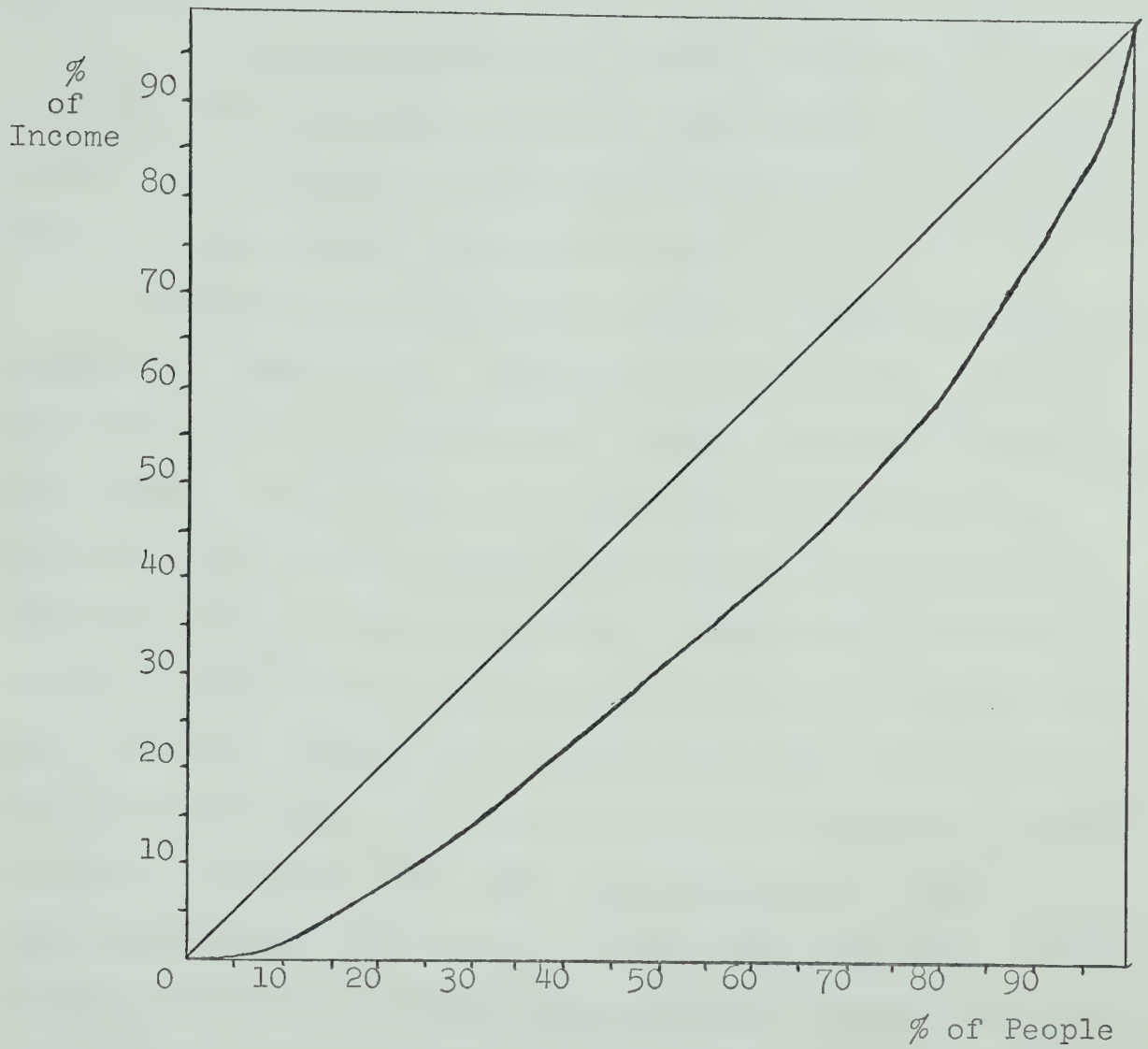
Figure 2-1

Lorenz Curve indicating Income Distribution of
Families and Individuals, including transfers,
Urban and Rural Non-Farm, Canada, 1961

centralization of political power. "Patrons" are provided
for financing novel ideas and experimentation, and to buy
the first experimental models. Finally, inequality of income
allows impersonal distribution, without the need for
authority.[1]

Although there are few people in Canada who would
uphold perfect economic equality, there seems to be a con-
sensus that there is too great a disparity in the distribu-
tion of income which exists at present.

Estimates regarding the number of persons living in
poverty in Canada vary, depending on the criteria used in
defining poverty. The Economic Council of Canada suggests
as criteria the per cent of income spent on necessities,
inferring that where a family is using up a good deal more
than half its income on essentials, that family is likely
to be in impoverished circumstances, having little left over
for education, health, recreation, and other "inessentials".
In their first estimate, those families spending 70 per cent
of their income on essentials were regarded as poor. In
1961, 27 per cent of Canadian non-farm families were in this
category; adding farm families brought the total to 29 per
cent of the Canadian population. In their second estimate,
families spending 60 per cent or more of their income on
essentials were included. This brought the total to 41 per

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[1]M. Friedman, Capitalism and Freedom (Chicago: Uni-
versity of Chicago Press, 1962), p. 168.

cent of the non-farm families in Canada that were considered poor. The Economic Council of Canada states that, "The statement that one Canadian in every five suffers from poverty does not appear to be a wild exaggeration."[1]

The distribution of income without government transfer of any sort is given in Table 2-2 and Figure 2-2. Of course, this distribution of income for families and individuals reflects the tax structures which help to finance the redistributive transfers. It is assumed throughout the paper that this underlying structure of the economy does not change.

It can be seen that the present system of transfers has been most important in keeping many families out of poverty and reducing the "before-transfer" poverty gap[2] of many more poor families. However, the statistics used in the tables below give estimates that exclude all non-monetary benefits. Also, any survey of family income is subject to to underreporting and public transfer income is no exception.

It can be seen that the present system of transfers from the various levels of government is not improving the distribution of income as much as could be hoped.

Poverty creates a vicious circle, in that children

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[1] Economic Council of Canada, Fifth Annual Review (Ottawa: Queen's Printer, 1968), pp. 108-110.

[2] The poverty gap is defined by C. Green, Negative Taxes and the Poverty Problem (Washington, D.C.: The Brookings Institution, 1967), p. 7, as the gap between the income of poor families and the income they need to move above the poverty line, wherever it may be situated.

Table 2-2

Income Distribution of Families and Individuals, excluding transfers

Urban and Rural Non-farm, Canada, 1961

Income Class	Per Cent of People	Per Cent of Income	Cumulative	
			Per Cent of People	Per Cent of Income
(1)	(2)	(3)	(4)	(5)
Without Income	.9	–	.9	–
Under $1000	14.1	3.0	15.0	3.0
$1000 - $1999	1.5	2.0	16.5	5.0
$2000 - $2999	9.0	3.7	25.5	8.7
$3000 - $3999	15.0	11.3	40.5	20.0
$4000 - $4999	16.2	13.7	56.7	33.7
$5000 - $5999	13.4	13.3	70.1	47.0
$6000 - $6999	9.1	10.9	79.2	57.9
$7000 - $7999	6.2	8.6	85.4	66.5
$8000 - $9999	6.8	10.9	92.2	77.4
$10000 - $15000	5.3	10.9	97.5	88.3
Over $15000	2.5	11.7	100.0	100.0
Total	100.0	100.0	–	–

Derived from: Tables A-1 to A-6, Appendix A.
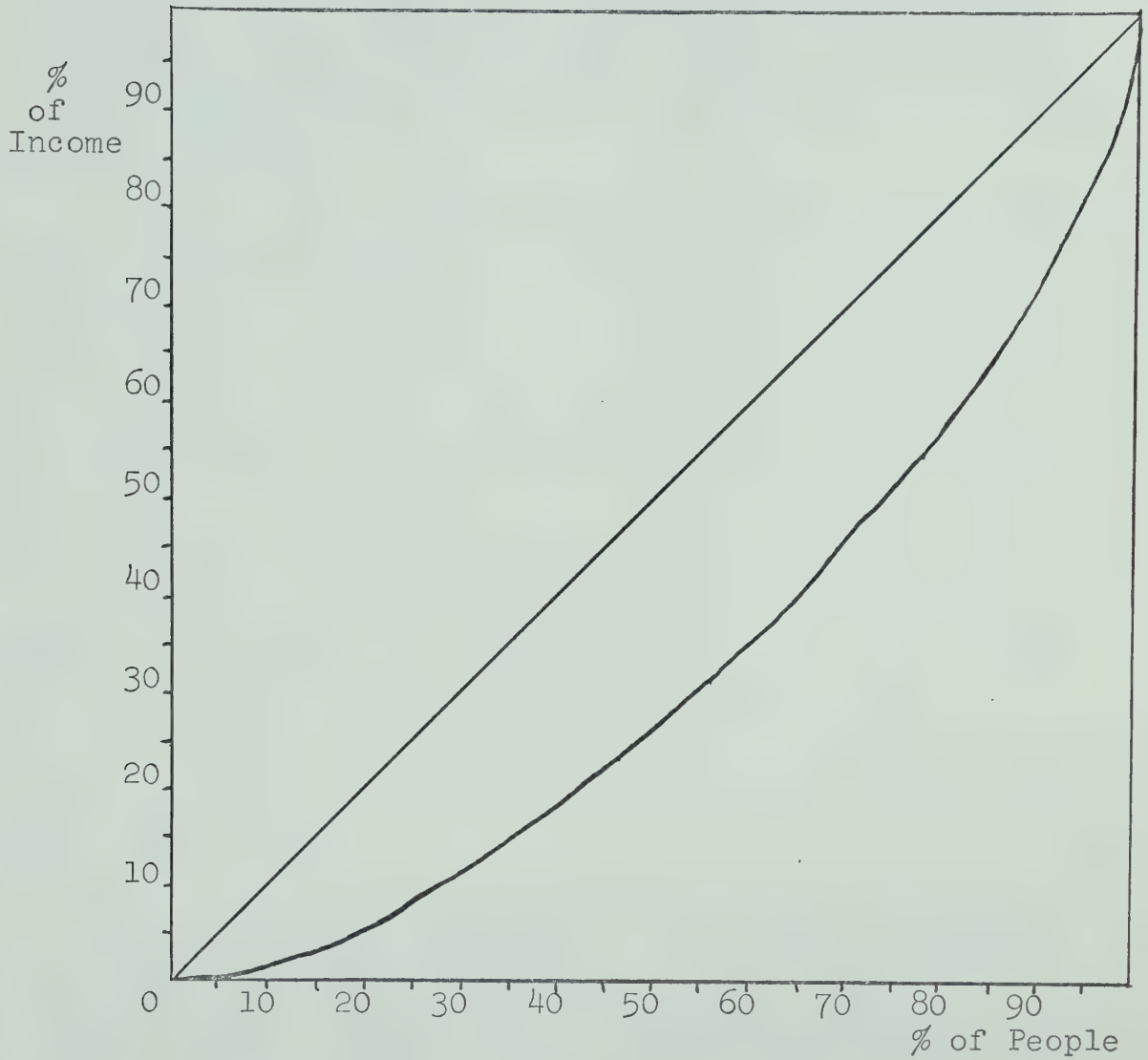
Figure 2-2

Lorenz Curve indicating Income Distribution of
Families and Individuals, excluding transfers,
Urban and Rural Non-Farm, Canada, 1961

of the poor are more likely to become poor themselves. It

is this circle that must be broken. For instance, C.E. Ayres

feels that,

> People endure ghastly poverty because ... in continuing
> to endure they are clinging to a slender thread of
> security. ... With the guarantee of a subsistence
> income, so that come what may, they would not starve
> to death, most of the present victims of poverty would
> make the effort of reorienting themselves in the indus-
> trial economy.[1]

Poverty is a highly relative concept. It is usually

viewed in terms of trends in the distribution of income

throughout society as a whole. The problem of defining

poverty is all the more complicated by the fact that, while

at least 20 per cent of Canadians are living at a scarcity

level, some parts of Europe have not yet attained a satis-

factory standard of living, and that the great majority of

mankind, which dwells in Latin America, Asia, and Africa,

is still living at hardly above starvation levels.[2] In

discussing measures of poverty, the Economic Council of

Canada states that,

> Such measures require among other things a thorough-
> going analysis of the needs and expenditure patterns
> of different types of families, and a consideration of
> assets, borrowing power, and income in kind as well as
> money income. It is useful also to distinguish between
> temporary and long-term poverty, and to allow for

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[1] C.E. Ayres, "Guaranteed Income: An Institutionalist
View," Guaranteed Income, ed. by Robert Theobald (Garden
City, New York: Doubleday & Company, Inc., 1966), p. 176.

[2] E. Fromm, "The Psychological Aspects of the
Guaranteed Income," in Guaranteed Income, ed. by Robert
Theobald (Garden City, New York: Doubleday & Company, Inc.,
1967), p. 189.

differences in living costs between different cities, towns, and rural areas.[1]

Once a measure of poverty is accepted, the policy problem of how to aid that family becomes, in one sense relatively simple: the major issue is the size of the income to be provided. But where there are earnings, but on an insufficient scale, or where there is an unexploited potential for earnings, the policy choices are less simple.

It must be remembered that any form of payment to poverty-striken families is only a stop-gap method, in that it is only alleviating the results of poverty, not striking at the causes. Poverty is, of course, sometimes preceded by psychological, emotional, health and other problems of the individual. However, social workers will testify that of far greater import is the effect chronic, hopeless, grinding poverty, produced by massive external social and economic forces, has on the appearance and exacerbation of problems of the individual and his family. These effects may persist even after financial support is provided and are likely to be of an order that require social work treatment, fortified by a strong battery of other community welfare services.[2] Such services would include improved opportunity and facilities for education, retraining programs,

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[1] Economic Council of Canada, Fifth Annual Review (Ottawa: Queen's Printer, 1968), p. 110.

[2] E. Schwartz; "An End to the Means Test," Social Work, Vol. 9 (July, 1964), p. 10.

improved health care, manpower and mobility programs and so
forth. The four major areas included in the war on poverty
are: (1) manpower development, training, and mobility
programs; (2) individual improvement and/or educational
programs; (3) community action and community change programs;
and (4) income maintenance programs.[1] To wage an effective
war on poverty, programs in all areas are needed.

It is to the last item on the list of delineated
areas that we now turn. At the present time, the various
levels of government redistribute income through a system of
taxation and transfer. The costs of these transfers,
excluding administration costs, are outlined in Table 2-3.
These figures give a standard of comparability for the
estimated costs of alternatives to this multitude of
different measures. The cost of these programs is mainly
covered by revenue from taxes of various types, notably,
personal income taxes.[2] Personal income taxes themselves
have a redistributive effect on income. Since the taxes
are progressive, they take a larger percentage of income
from the rich, thereby causing their share of after-tax
income to fall relative to lower income people. Various
cost sharing agreements have been entered into by the

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[1] Economic Council of Canada, Fifth Annual Review
(Ottawa: Queen's Printer, 1968), p. 125.

[2] D.B. Smith, "A Simplified Approach to Social
Welfare," Canadian Tax Journal, Vol. 13 (June, 1965), p. 260.

Table 2-3

Expenditures on Social Welfare

All Levels of Government in Canada, 1961

in Thousands of Dollars

	Federal	Provincial
Old Age Assistance Old Age Security	623,113	45,988
Aid to the Blind	4,200	2,991
Aid to the Disabled	16,400	19,529
Family Allowance and Child Welfare	506,200	80,451
Social Aid and Supplementary Allowance	-	67,805
Unemployment Insurance Unemployment Assistance Workmen's Compensation	553,679	126,087
Veteran's Pensions and Allowances	245,005	-
Other	3,300	38,186
Sub-total	1,951,897	381,037
Municipal expenditures*	96,762	
Total	2,429,696	

Source: Public Accounts of Canada, 1961, issued by the Department of Finance (Ottawa: Queen's Printer, 1962). Public accounts of the provinces of Canada (for complete listing, see Bibliography). Also, Financial Statistics of Municipal Governments, 1961 and 1962, Revenue and Expenditure, Dominion Bureau of Statistics, Public Finance and Transportation Division, Public Finance Section (Ottawa: Queen's Printer, 1962).
       * No further breakdown was available. .

different levels of government. The federal government gives grants to the provinces and municipalities to help offset their welfare expenditures.[1]

Although these programs of expenditure have aided those in need, and improved somewhat the inequitable distribution of income, they have many weaknesses which could be corrected.

The most general defect in these programs is that payments depend on specific categories of the poor, that is, one is given aid because one is old and poor, or disabled and poor, not because one is simply poor. In some cases, even poverty is not needed as a criterion for receiving assistance. Because of this fact, many needy persons and families are not eligible for assistance.

In the case of social assistance, the most general form of the transfer payments, a means test must be taken to prove poverty. This of course is a humiliating experience for many people. One of the most frequent complaints of persons receiving assistance is that they are made to feel like a beggar. This creates unwelcome side-effects such as trying to cheat the agency in question.

The amount of the assistance payment which is paid is often not enough. Not trusting the poor to spend their own money, many departments calculate their needs down to the

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[1]For specific figures relating to the cost-sharing agreements, see the Public Accounts of Canada, 1960-1961, Department of Finance, (Ottawa: Queen's Printer, 1961).

shoelaces and hairpins. As a short-term stop-gap, the

family can survive on this amount. However, if the need

becomes long-term, there is no allowance for replacement of

household items which have worn out, and since the budgets

are so carefully planned, there is no possibility of saving

the needed amount out of the allottment. This gives those

on "welfare" no chance to better themselves or their families,

or to improve their station in life.

Due to the belief that no one should get something

for nothing, an ablebodied man who cannot obtain employment

is seldom allowed to receive social assistance. This fact

often contributes to the breakup of low income families.

Since separated women, divorcees, or widows, and their

children, are eligible for assistance, the unemployed or

low-paid father is given the choice of watching his family

starve or deserting. Many desert. This in turn leads to

policing practices on the part of the departments involved

to ensure that mother is not breaking any of the rules.

This contributes to the "second-class" citizen feeling which

the poor often have.

There are few, if any, incentives to work under

social assistance. There is an effective 100 per cent tax

rate on all income earned over and above that received

from government transfer payments. That is, for every dollar

earned from other sources, the payment received is decreased

by an equal amount. This means that up to the point where

the assistance payment is reduced to zero, there is no

economic gain from work. For an earner who could add little
if anything, to the amount received for doing nothing, there
is an enormous potential--and in many cases, actual--dis-
incentive to work.[1] In some types of social assistance, if
more than a very small amount of money is earned, the entire
transfer payment is withheld. Since many poor persons are
unable to take full-time employment, and cannot support
themselves and/or their families by working part-time, this
effective tax causes a great disincentive to work. Needless
waste and demoralization is therefore created.

Another basic problem arises due to the fact that
there is no central agency handling all payments to the
poor. There are large differences between the provinces
as to local residency requirements and the amounts of the
assistance payments to the poor--amounts that cannot be
accounted for by differences in the standard of living.
There is a lack of coordination not only between, but with-
in levels of government, causing overlapping and/or gaps
in payments.

The above-mentioned problems apply rather generally
to all government transfer payments. However, some transfer
payments have specific weaknesses.

For example, old age security and aid to the blind
and disabled have a residency requirement. If a person has
lived in Canada for less than ten years, they are ineligible

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[1]C. Green, Negative Taxes and the Poverty Problem
(Washington, D.C.: The Brookings Institution, 1967), p. 40.

for the above assistance. Also, a person may receive one payment or the other, but not both, even if he is eligible for both.

Family allowance has mainly been criticized on the basis of one or more of the following: (1) such allowances may tend to increase the birth rate, especially among poorer families; (2) the allowances may not be spent on children; (3) the allowances may tend to depress wages; and (4) a large portion of the total family allowance payments would go to families who by no stretch of the imagination are poor. There is little statistical evidence to support or reject the first two objections. The validity of the third objection depends on the method of financing and the level of the payments. Since family allowances were introduced in 1944, wages in Canada have been rising substantially. Also, to the extent that family allowances are designed, not so much as a poverty measure, but to redistribute income towards children, the fourth criticism becomes less valid.[1] The Economic Council of Canada has suggested that family allowances, as a poverty measure should be supplemented by improved day care facilities for children, which would allow wives to work and therefore supplement the family

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[1]For further information of family allowances see C. Green, Negative Taxes and the Poverty Problem (Washington, D.C.: The Brookings Institution, 1967), pp. 46-50, and James Vadakin, Children, Poverty, and Family Allowance (New York: Basic Books, Inc., Publishers, 1968), Chapter 4.

income.[1]

Unemployment insurance is a wage-related poverty measure. Usually the benefits which accrue to a person are related to the amount he has paid into the program, which in turn is related to the level of the worker's earnings. While the ratio of benefits to earnings is usually higher for low-income earners than for high-income earners, it is still a fraction of income. This does not aid the worker whose earnings are below the poverty line. Furthermore, if a family does not have a past or a present earner, they do not qualify for any wage-related program.

All the transfer payments mentioned above are mere alleviations of poverty rather than prevention and eradication. The majority of the time spent by public assistance workers goes into the mechanics of eligibility determination and the handling of details of financial assistance and therefore, rehabilitative services and therapeutic services suffer. The vicious circle of poverty, perpetuated by living on the edge of subsistance, cannot be broken without these services, since poverty itself saps earning capacity. A better system, enabling self-respect and initiative to be regained, would help to break the vicious circle.[2]

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[1] Economic Council of Canada, *Fifth Annual Review* (Ottawa: Queen's Printer, 1968), p. 118.

[2] J. Tobin, "The Negative Income Tax," in *Readings in Economics*, ed. by H. Kohler (New York: Rinehart and Winston Inc., 1968), p. 591.

Chapter 3 - Guaranteed Income: An Alternative

It can be seen that the present myriad of measures
taken by the various levels of government to eliminate,
eradicate, and prevent poverty need much improvement. The
inequalities in the present distribution of income in Canada
could then be lessened by a significant amount.

One alternative would be to improve the coverage of
the present system by broadening present categories, creating
new categories, or eliminating all categories. If either of
the first two approaches were taken, although more persons
would come into covered categories, there would still remain
the possibility that there would be persons who were not
covered. If the last alternative were taken, social assist-
ance could be made available to all families whose need is
great enough. Also, even if federal financing standardized
the programs, there would still be one important question to
be answered. Can the social stigma of being on relief be
eliminated? Christopher Green feels that,

> ... the personal touch added in theory by the client-
> welfare worker relationship has not worked out in practice.
> Welfare workers, rather than spending most of their time
> providing services to clients, often spend at least half
> of their time on paperwork concerning payments and check-
> ing to see whether their clients still qualify for assist-
> ance. The time problem might be remedied by hiring more
> welfare workers. But so long as the welfare worker must
> "snoop" in his clients private life as a check on indi-
> gence and other conditions for eligibility, the service
> function of the welfare worker is likely to be undercut
> by mutual distrust.[1]

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[1]C. Green, Negative Taxes and the Poverty Problem
(Washington, D.C.: The Brookings Institution, 1967), p. 39.

Another problem which could be rectified is the
100 per cent "tax" on earnings. If public assistance is to
be extended to cover the employable poor, assuming that work
is distasteful, this tax rate could do a great deal of damage
to worker incentives.

In summary, to improve the present system of welfare
and transfer payments, the following five steps must be taken:
(1) broaden or eliminate special categories of recipients in
order to reach a much larger number of poor families; (2)
increase the benefits by increasing federal financing; (3)
reduce assistance payments at a rate substantially less than
a dollar for each dollar earned; (4) improve the client-
welfare worker relationship; and (5) minimize the social
stigma presently attached to receiving relief.[1]

"Categorical assistance" as supported by Helen O.
Nichol and other public welfare leaders, involves provision
of income grants to people on the basis of their particular
needs and problems. Where guaranteed income specifies
minimum income grants to people below designated levels
(regardless of age or physical, mental, or social condition),
categorical assistance attempts to match payments to needs
in a more refined way. Basically, this is just the extension
and improvement of the present system which was discussed
above.

Similarly, social insurance schemes could be improved.

[1]Ibid, p. 40.

This would entail extending unemployment compensation, increasing benefits above the poverty line, and abolishing the limit on the period during which a person is eligible to receive benefits. However, no matter how much the social insurance system, or any wage-related approach to poverty, was improved, it would not aid in any way those who are not employable and their families.

There are a number of other proposals designed to eliminate poverty. Erich Fromm suggests an alternative: guaranteed income without money. In the present age of abundance, he feels that society ought to make the actual necessities of life (food, shelter, clothing) available without charge. At the same time, he proposes a "vast change in industry from the production of commodities of individual consumption to the production of commodities for public use."[1]

There are some who are sympathetic to guaranteed income proposals as a means of eliminating poverty but who prefer to base this upon work opportunities. U.S. Congressman Thomas B. Curtis has, for example, outlines what he calls "guaranteed opportunity to earn an annual income".[2] But his proposal is limited to various work training schemes, and is based on the assumption that private enterprise will, with

[1]E. Fromm, "The Psychological Aspects of the Guaranteed Income," in The Guaranteed Income, ed. by Robert Theobald (Garden City, New York: Doubleday & Company, Inc., 1967).

[2]See "The Guaranteed Opportunity to earn an Annual Income", in Proceedings of the National Symposium on Guaranteed Income, p. 60.

some government subsidy, be able to generate enough job
opportunities. It is not really a proposal that there be
universal opportunity for work, with the government as
employer of "last resort". Also, this type of proposal does
not help those who, due to some physical, mental, or social
condition, cannot work.

Guaranteed income plans are a form of transfer-by-
taxation. These plans differ from present public transfer
programs by: (1) the focus on closing the poverty gap; (2)
the emphasis on income, usually related to size of family,
in determining if a given unit is eligible for an allowance;
and (3) the degree to which a tax system is used as a vehicle
for transferring income. These plans differ from the present
system in that coverage is universal and all payments are in
cash. The refusal to draw a line between the able-bodied
poor and those with some form of disability is the heart of
the difference. Transfer-by-taxation also embodies the
principle that the poor can be trusted to allocate their own
funds without government supervision, therefore increasing
individual freedom of choice and reducing impediments to the
operation of the market system.[1] Friedman mentions eight
advantages of guaranteed income schemes over the present
system: (1) they are directed specifically at the problem of
poverty; (2) they give help in the most useful form--cash;
(3) they are general and can be substituted for many special

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[1]C. Green, Negative Taxes and the Poverty Problem
(Washington, D.C.: The Brookings Institution, 1967), pp. 5-10.

measures; (4) they make explicit the cost borne by society;
(5) they operate outside the market; (6) they do not entirely
eliminate incentive; (7) some of these systems would fit
directly into our current income tax system and be administ-
ered along with it; and (8) they could be far less costly
than the present measures, in terms of both money and degree
of government intervention. He also states a major dis-
advantage: the political danger that, rather than the majority
taxing itself to help an unfortunate minority, it will be
converted to a case in which the majority imposes taxes for
its own benefit on an unwilling minority.[1]

There are basically two types of guaranteed income
proposals: social dividend taxation, which would fill the
entire poverty gap, and substantially alter the entire
income distribution; and negative rates taxation, which
would close a portion of the poverty gap.

The idea of a guaranteed income for all is not
entirely new, and most of the specific proposals which have
been offered contain many links with presently accepted
practices. Not surprisingly, the idea has appeared now and
again in the writings of utopian social thinkers such as
Edward Bellamy.[2] One variation of the idea, the "Speenhamland"

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[1]M. Friedman, Capitalism and Freedom (Chicago:
University of Chicago Press, 1962), pp. 192-194.

[2]E. Bellamy, Looking Backward, 2000-1887, ed. by
J.L. Thomas (Cambridge, Massachusetts: The Belknap Press of
Harvard University Press, 1967).

system, was in operation for a number of years in England
before it was finally abolished by the Poor Law of 1834.
This system was based on the price of wheat and the size of
a worker's family, and was designed to give minimum
subsistance to all who needed it. Unfortunately, it gave
employers an excuse for lowering wages, and the system
broke down.

The idea appeared again during World War II, when
Lady Juliette Rhys-Williams proposed a social dividend
system.[1] In effect, this was a joining together of social
insurance and income tax systems. Its coverage was univer-
sal; every man, woman, and child received a dividend, although
the amount varied with sex and age. The theory was that poor
persons would keep the transfer, while those not in need
would return it to the government through the mechanics of
the personal income tax.

All guaranteed minimum income plans are, in principle,
alike. Each has three basic variables: (1) a minimum income
guarantee when earned income is zero; (2) a tax rate, or
rates; and (3) a breakeven level at which income payments
are reduced to zero. Any two of these three basic variables
determine the third. However, due to personal differences
in the authors, such as political persuasion or field of
specialization, each plan is slightly different. The main
income guarantee plans which have been proposed are those of

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[1]Lady J. Rhys-Williams, Taxation and Incentive
(London: William Hodge and Company Ltd., 1953).

Milton Friedman, Robert Lampman, James Tobin, Robert Theobald, and Edward Schwartz. While a detailed analysis of each of these plans is beyond the scope of this work, their salient features will be set forth.

Friedman.[1] - Under present law, each individual is allowed a certain number of deductions and exemptions for purposes of taxing personal income. If an individual has an income greater than the sum of his deductions and exemptions, he pays a tax on the balance. If his income is less than this sum, he simply pays no tax. Friedman's proposal would result in the government making a payment to the individual. Friedman suggests a rate of payment of 50 per cent to avoid discouragement to incentive. For illustrative purposes, assume a family of four persons had exemptions plus deductions equal to $3000. This figure would be sort of a breakeven point. On any income above this amount, the family would pay tax according to the present schedules. If they had no income they would receive $1500 from the government. If a family's earned income was $2000, the family would receive payments of $500, that is, 50 per cent of the $1000 difference between income earned and the breakeven point.

Lampman.[2] - The various proposals of Robert Lampman

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[1] M. Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962).

[2] R. Lampman, "Approaches to the Reduction of Poverty," American Economic Review, Papers and Proceedings, Vol. 55 (May, 1965), pp. 521-529.

specify different rates of subsidy to be added to earnings
as reported under the income tax. Such subsidies are designed
to bring each individual or family, depending on its size,
up to some predetermined income level. The subsidy scales
are regressive in the sense that as earnings increase, the
rate of subsidy declines, therefore the greatest aid is
given to the very-low-income earners. Table 3-1 illustrates
the operation of one of Lampman's plans. As indicated, a
family with no income would be $3000 below the break-even
point. At a 50 per cent subsidy rate, the family would
receive $1500 from the government. If family income was
$500, the subsidy rate would fall to 45 per cent. The family
would receive a subsidy of $1125 (45 per cent of $2500)
bringing their total income to $1625. At higher earnings
levels, the subsidy rate declines still further, as shown.

Theobald.[1] This is undoubtedly the most far-reaching
and controversial of the various income guarantee plans, both
in philosophy and content. Theobald's Economic Security Plan
is composed of two elements: Basic Economic Security (BES)
and Committed Spending (CS). BES would establish a minimum
income floor for each individual. In the example Theobald
uses, this would be $1000 for each adult and $600 for every
child. In case there was income from work or other sources,
this would not simply reduce the BES entitlement dollar

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[1]R. Theobald, Free Men and Free Markets (Garden
City, New York: Doubleday & Company, Inc., 1963).

for dollar. Rather, those persons with income would receive
a premium, which for the sake of discussion he sets at 10
per cent. If a family of four earned $2000, its total income
would be $3400. That is, $2000 earnings, plus $1200 to raise
this to the BES level of $3200, plus $200 (10 per cent of
money earned). The second element of the plan, Committed
Spending, (CS), which would not be immediately implemented,
is designed to protect the earnings of the middle income
group who find their customary living standards are being
jeopardized by the displacements resulting from cybernation.
Again using one of Theobald's examples, a person who left
the work force at age 30 would have a CS entitlement equal
to 50 per cent of his average earnings over the prior ten
years. For each year after age 30 that a person continued
to work, one per cent would be added to the entitlement up
to a maximum of 85 per cent at age 65. In no case could any
CS recipient receive more than three times the appropriate
BES benefits.

Schwartz.[1] - Professor Schwartz's proposal is essent-
ially a straight-out guarantee scheme described in broad
terms. Using a family of four as an illustration, his
Federally Guaranteed Minimum Income (FGMI) could be set at
any one of three levels: minimum maintenance level ($3000
per year); economy level ($4000 per year); or modest-but-

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[1] E.E. Schwartz, "An End to the Means Test," Social
Work, Vol. IX (July, 1964), pp. 3-12.

adequate level ($5000 per year). Every family head or

single individual would file a statement of his anticipated

income for the coming year, income for the last year, and

number of dependents. If his anticipated income for the

year is below his FGMI, he would file a claim for a Family

Security Benefit (FSB) to the amount of the difference. If

it was above his FGMI, he would simply pay income tax.

Schwartz indicates that an incentive feature could be incor-

porated into his plan. This would be a regressive formula

similar to that contained in the Lampman proposal described

above. Table 3-2 illustrates this scheme.

Tobin.[1]- Tobin's plan is similar to Lampman's approach.

The government would pay the "taxpayer" $400 for himself and

each member of his family. This allowance would be reduced

by 33 1/3 cents for every dollar earned. At an income of

$1200 per person, the allowance would be zero. Above that

amount, the family would pay taxes at the rate of 33 1/3

cents for every dollar earned above the $1200 per person.

At some higher point, the regular tax schedule will apply.

An illustration is provided in Table 3-3, using a five person

family. Tobin's plan has families claiming on a current

basis with overpayments or underpayments adjusted on April 15,

in the same manner as under the regular income tax program.

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[1]J. Tobin, "Raising the Incomes of the Poor," in
Readings in Economics, ed. by H. Kohler, 2nd edition (New
York: Holt, Rinehart and Winston, Inc., 1968), pp. 719-747.

Table 3-1

Income Allowances Plan: Lampman (Based on a Four-Person
Family and a Break-even Point of $3000 per Year)

Earned Income (Dollars)	Amount by Which Income Is Below Break-even Point (Dollars)	Rate of Subsidy (Per Cent)	Amount Of Subsidy (Dollars)	Total Income, Including Subsidy (Dollars)
None	3000	50	1500	1500
500	2500	45	1125	1625
1000	2000	38	750	1750
1500	1500	33	500	2000
2000	1000	25	250	2250
2500	500	25	125	2625
2800	200	25	50	2850
3000	0	0	0	3000

Source: Business Week (November 13, 1965). Based on data
supplied by Robert Lampman.

Table 3-2

Income Allowance Plan: Schwartz (Based on a Four-Person
Family, Using a Minimum Maintenance Allowance Guaratee
Level)

Earned Income (Dollars)	Tax on Income (Per Cent)	Family Security Benefits Received or Taxes Paid (Dollars)	Total Income (Dollars)
0-999	60	3000-2400	3000-3399
1000-1999	70	2399-1700	3399-3699
2000-2999	80	1699-900	3699-3899
3000-3999	90	899-0	3899-3999
4000-4499	100	0	4000-4499
4500 and above	positive tax	Tax on amounts above 4500	4500 plus

Source: E. Schwartz, "An End to the Means Test," Social
Work, Vol. 9 (July, 1964).

Table 3-3

Income Allowances Plan: Tobin (Based on

Married Couple with three Children)

Family Income Before Tax or Allowance (Dollars)	PRESENT TAX SCHEDULE		PROPOSED TAX SCHEDULE	
	Tax (-) (Dollars)	Income After Tax* (Dollars)	Tax (-) or Allowance (+) (Dollars)	Income After Tax or Allowance (Dollars)
0	0	0	+2000	2000
1000	0	1000	+1667	2667
2000	0	2000	+1333	3333
3000	0	3000	+1000	4000
3700	0	3700	+ 767	4467
4000	- 42	3958	+ 667	4667
5000	-185	4815	+ 333	5333
6000	-338	5662	0	6000
7000	-501	6499	- 333	6667
7963**	-654	7309	- 654	7309
8000	-658	7342	- 658	7342

Source: J. Tobin, "The Case for an Income Guarantee," The Public Interest, No. 4 (Summer, 1966), p. 38. It should be noted that Professor Tobin has devised alternate plans. See: "Do We Want Children's Allowances?", The New Republic (November, 1967); "Helping Children," The New Republic (December, 1967), which discusses the foregoing; and "Is Negative Income Tax Practical," Yale Law Journal (November, 1967). In the latter article, written with Professors Joseph Pechman and Peter Mieszkowski, some of the practical aspects of income guarantees are examined.
 *Assumes a standard 10 per cent deduction.
 **Point at which the present tax schedule would apply.

This plan contains a disincentive to add to the size of the family above a certain level. For each person up to six, the basic guarantee is $400 per person, the seventh and eighth members add $150, and nothing is added for family members in excess of eight. Both Friedman and Tobin would have their plans supplant other welfare payments, but to differing extents.

Another interesting proposal put forward by Earl Rolph and others is the credit income tax.[1] For example, everyone in the country is given a tax credit of $750 and is obligated to pay the government one-third of his income, not including the $750. This makes the $750 a guaranteed income, that which a person would receive if he had no other income. The "break-even"level of income is $2250. If income is in excess of this, the government takes as taxes one-third of the excess. If income is below this level, the government makes up one-third of the short-fall. This plan is neutral in respect to grouping of individuals. No set of individuals can gain at the expense of the government by splitting up into smaller units or by joining to form one large unit. It can be seen that this is a form of "negative income tax" and is comparable to Friedman's plan, with the $750 tax credit in place of the standard deductions and exemptions.

It is interesting to note that the State of Hawaii

[1] E.R. Rolph, "The Case for a Negative Income Tax Device," in "A Symposium: Negative Income Tax Proposals," Industrial Relations, Vol. 6 (February, 1967), pp. 121-137.

instituted a program of tax credits in 1965 which, for a family
of four with an income of less than $1100 would result in a
tax credit payment of $72. However, Hawaii's legislators
were not contemplating wiping out poverty with this kind
of payment; they were thinking of the relatively harsh way
in which the retail sales tax treats the low income family.
This tax credit would, through the mechanism of the income
tax, distribute some money to the poor to make up for the
regressive impact of the sales tax.

Complicating any evaluation of the income guarantee
plans described above is the fact that there is considerable
difference among them as to the level of income that each
would supposedly ensure to all individuals and families.
The guarantee levels range all the way from less than the
poverty line in Friedman's and Lampman's plans, to the poverty
line in Theobald's BES proposal, from the poverty line to
modest-but-adequate under Schwartz's plans, and from less
than the poverty line to above that amount in accordance with
income under Tobin's proposal. The first problem is then
to determine the amount of benefits to be paid, then the
plans can be compared more adequately.

Under fractional guarantee plans which do not propose
to bring all incomes up to some predetermined level such as
the poverty line, the goal of something approaching reasonable
cost is acheived but at the sacrifice of adequate income
levels. On the other hand, full guarantee plans, which

would acheive adequate income levels, do so at costs which
may be prohibitive as a practical matter.

Inherent in any income guarantee plan is the danger
of disincentive. Obviously, a guaranteed income plan will
not destroy incentive (1) where none exists; and (2) where
it strongly exists. But there is a large vague area in
between, and at least a portion of our welfare poor is to
be found in it. The plans of Theobald and Schwartz give
little or no incentive to work, while those of Friedman,
Lampman, and Tobin raise serious doubts in the matter of
preserving incentive. Professor Milton Friedman says of
his proposal:

> Like any other measures to alleviate poverty it reduces
> the incentive of those helped to help themselves but it
> does not entirely eliminate that incentive as a system
> of supplementing incomes up to some fixed minimum would.
> An extra dollar earned always means more money available
> for further expenditure.[1]

In commenting on this statement, Edward Schwartz states that:

> Friedman's built-in incentive is ... obtainable only at
> the expense of sacrificing the assurance that all families
> will receive the income they need .... This proposal for
> providing a federally guaranteed income ... paid as a
> matter of right is open not only to the criticism of
> removing the goad of hunger, but of also eliminating a
> second-line deterent--the shame of the public means
> test.[2]

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[1] M. Friedman, Capitalism and Freedom (Chicago:
University of Chicago Press, 1962), p. 192.

[2] E. Schwartz, "An End to the Means Test," Social
Work, Vol. 9 (July, 1964), p. 8.

The question of equity is closely related. That is, should people receiving subsidies end up with incomes approximating those who do not?

One of the most attractive aspects of guaranteed income proposals, at least to those who are in the social welfare field, is the belief that these plans would eliminate the means test. Obviously, subsidy payments should not be made to the non-poor. Under the various proposals, eligibility would be determined on the basis of income tax or other forms submitted to the government. To the extent that information would still have to be supplied, the result would be something approximating a means test on a universal basis.

Justification for guaranteed income proposals varies widely. At one extreme we have Professor Milton Friedman. Perceiving as he does that much of the increase in government intervention in the economy results from the fact that it is impossible for the rulers of a modern state to allow any group of citizens to starve, Professor Friedman believes that we should devise methods that would ensure a minimum income for all and thus eliminate the major present cause of government intervention in the economy.[1]

At the other extreme, we have Professor Robert Theobald who envisions a world in which increasing automation

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[1]M. Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962), Chapter 13.

and cybernation will put the majority of the population out
of work. He speaks of a guaranteed income:

> In the short-run, it is required because an ever-growing
> number of people who ... cannot compete with machines;
> in the absence of the guaranteed income the number of
> people in hopeless extreme poverty will increase. In
> the long-run, we will require a justification for the
> distribution of resources that is not based on job-
> holding, because this is the only way we can break the
> present necessity to ensure that supply and demand
> remain in balance.[1]

Professor Meno Lovenstein feels that although the
social insurance programs were not instituted to stabilize
the economy, they are never-the-less "built-in stabilizers".
Guaranteed income schemes should therefore be accepted as
the extension of the program for the guarantee of national
income and the philosophy of "built-in stabilizers".[2]

Similar to this approach, other individuals, notably
Mr. D.B. Smith, feel that the justification for a guaranteed
income is essentially to keep aggregate demand up to the level
of growing productive capacity.[3] Still other writers see
guaranteed income proposals as a way of coordinating the
multitude of measures now being used for income redistri-
bution.

There are many other things that must be taken into

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[1] R. Theobald, ed., The Guaranteed Income (Garden City,
New York: Doubleday & Company, Inc., 1967), p. 23.

[2] M. Lovenstein, "Guaranteed Income and Traditional
Economics," in The Guaranteed Income, ed. by R. Theobald
(Garden City, New York: Doubleday & Company, Inc., 1967), p.123.

[3] D.B. Smith, "A Simplified Approach to Social Welfare",
Canadian Tax Journal, Vol. 13 (May-June, 1965), p. 261.

account: (1) income guarantees would treat the results of low earning capacity but not its causes; (2) it is unlikely that guaranteed incomes would accord with existing ethical values held by the people; and (3) the possibility that guaranteed income plans would have unwanted side effects such as having a depressing effect on wages, or increasing the birth rate.

In the following chapter, effects of guaranteed income proposals on the income distribution in Canada, a small part of the total, will be examined.

Chapter 4 - Guaranteed Income and the Income Distribution

Since there are basically two types of guaranteed income proposals, social dividend taxation and negative income taxation, the effects created by each type should be examined. Robert Theobald's BES is used as an example of the former, while Milton Friedman's negative income tax is used as an example of the latter. By choosing these two plans in particular, in effect, the two extreme plans are taken. Friedman's negative income tax is one of the most conservative of the proposals, both in justification and practical aspects such as level of benefits and ease of adaptation to the present tax system. Theobald's BES is at the other extreme.

Taking the basic structure of the models as given above, by applying simple algebra on data from the 1961 Census of Canada, the costs to the government and the appropriate income distributions can be derived. There are many specific problems involved in this process, necessitating simplifying assumptions, perhaps partially accounting for the dearth of statistical work done with guaranteed income proposals.

The first assumption which must be made concerns present transfer payments by the various levels of government. Friedman explicitly states that his negative income tax is designed to completely replace present transfers.[1]

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[1]M. Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962), p. 192.

Similarly, the level of benefits under Theobald's BES removes all need for other transfers. The first step, therefore, is to remove all transfer payments from present income. Table 4-1 indicates the per cent of income received from transfer payments. Unfortunately, the data is not broken down by family size. This necessitiates the assumption that the

Table 4-1

Non-transfer Income as a Per Cent of Total Income

Urban and Rural Non-farm, Canada, 1961

Income Class	Non-transfer Income (Per Cent)
Without Income	0
Under $1000	35.0
$1000 - $1999	60.3
$2000 - $2999	81.4
$3000 - $3999	91.7
$4000 - $4999	94.1
$5000 - $5999	95.4
$6000 - $6999	95.8
$7000 - $7999	96.5
$8000 - $9999	96.9
$10000 - $15000	97.9
Over $15000	98.9

Source: Dominimion Bureau of Statistics, Distribution of Non-Farm Incomes in Canada, 1961 (Ottawa: Queen's Printer, 1962), Table 17, p. 27.

the percentage of income received from transfer payments is not a function of the number of children in a family.

Tables 4-2 and 4-3 indicate the present income in Canada by family size and income class.

Tables A-1 to A-6 (Appendix) indicate the calculations

Table 4-2

Average Total Income, by Income Class, Persons

Not in Families, Canada, 1961

Income Class	No. of Persons	Average Income
Without Income	101,212	0
Under $1000	429,123	614
$1000 - $1999	273,705	1,418
$2000 - $2999	216,676	2,423
$3000 - $3999	195,073	3,383
$4000 - $4999	92,774	4,359
$5000 - $5999	43,761	5,326
$6000 - $6999	20,884	6,346
$7000 - $7999	10,916	7,375
$8000 - $9999	9,991	8,768
$10000 - $15000	8,068	11,702
Over $15000	5,077	27,401
Total	1,407,276	2,137

Source: Column (2) and Column (5), Table A-1, Appendix A.

which remove transfers from present income. Total income
with transfers in 1961 was 22,933 million dollars. Without
transfers, total income was 21,253. This gives an estimate
of total transfer payments as 1,680 million dollars. This
total is strictly monies received by individuals and families.
The discrepancy between this estimate and that acheived in
Table 2-3 is explained in Appendix B. Neither of these two
estimates include administration costs.

Friedman's negative income tax is based on a non-
taxable income base, or allowable deductions and exemptions.
Similarly, Theobald's BES varies the benefit due to adults

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Table 4-3

Average Total Income for Families, by Income Class,

by Size of Family, Canada, 1961

	2 person Families	Average Income	3 person Families	Average Income	4 person Families
Without Income	11,736	0	1,065	0	181
Under $1000	72,231	562	30,660	465	20,101
$1000 - $1999	167,564	1,495	50,512	1,540	33,540
$2000 - $2999	141,768	2,464	82,444	2,513	64,265
$3000 - $3999	161,700	3,449	125,108	3,496	113,387
$4000 - $4999	141,024	4,435	130,523	4,461	141,891
$5000 - $5999	111,081	5,419	106,893	5,434	119,388
$6000 - $6999	85,815	6,418	76,791	6,433	84,043
$7000 - $7999	60,069	7,416	52,771	7,436	57,392
$8000 - $9999	61,325	8,777	55,166	8,805	63,576
$10000 - $15000	38,965	11,663	37,441	11,654	48,099
Over $15000	19,843	27,069	16,331	25,592	21,896
Total	1,073,121	4,615	765,685	5,388	767,559

	Average Income	5 person Families	Average Income	6 person Families	Average Income
Without Income	0	26	0	21	0
Under $1000	469	11,849	441	15,720	573
$1000 - $1999	1,553	19,554	1,534	30,945	1,553
$2000 - $2999	2,538	39,338	2,541	54,420	2,540
$3000 - $3999	3,520	71,213	3,521	86,158	3,535
$4000 - $4999	4,481	89,927	4,479	99,827	4,496
$5000 - $5999	5,440	79,942	5,439	85,160	5,466
$6000 - $6999	6,442	52,129	6,447	54,727	6,464
$7000 - $7999	7,448	35,639	7,452	36,858	7,463
$8000 - $9999	8,826	40,323	8,843	42,397	8,871
$10000 - $15000	11,698	32,972	11,798	36,826	11,810
Over $15000	24,751	16,614	25,089	18,118	25,613
Total	5,919	489,426	6,103	561,177	5,913

Source: Column (2) and Column (5) from the respective
family size tables, Tables A-2 to A-6, Appendix A.

and children.   Because of this, an adjustment must be made
as to the number of families in each income group which are
broken homes.[1]   Obviously, it makes a great difference
whether, for example, in a family of four, there are two
parents and two children, or one parent and three children.
This data on broken homes is not adjusted by size of family.
It must be assumed therefore, that the number of children in
a family does not affect whether or not that family is broken.

The tabulations which lead to cost estimates for the
two guaranteed income plans are outlined in the Appendix A.
These cost estimates are underestimates due to the unfortu-
nate circumstance of lack of information.   That is, in
families of six and greater, there is no average size given.
The costs of the guaranteed income plans were computed on the
assumption that there were no more than six persons in a
family.   This of course underestimates, on the one hand, the
allowable deductions and exemptions base for the negative
income tax, and on the other, benefits due from BES.   This
causes an underestimate of the population covered and an
overestimate of per capita income.   Similarly, it must be
assumed that there are never more than two adults in a
family.   This will cause underestimates for two reasons.
First, the allowable deduction or the net benefit is greater
for an adult than for a child.   Second, adults often have
other exemptions, such as tuition fees or extra medical

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[1]See Tables A-9, Appendix A.

expenses, which a child seldom has. Finally, the cost
acheived by these calculations does not include the rural
sector of the economy. The Economic Council of Canada
estimates the number of low-income farm families at 150,000.[1]
Since rural families make up approximately 39 per cent of the
low-income sector, this will increase the total cost sub-
stantially.[2]

The cost of Friedman's proposal is estimated at
938 million dollars, whereas Theobald's BES costs approxi-
mately 1,907 million dollars. Upon comparison to the cost
of the present system, estimated in Table A-8, Appendix A,
it can be seen that Friedman's negative income tax costs
about two-thirds as much as the present system of payments
to non-farm persons, whereas Theobald's BES costs about
15 per cent more.

Looking at the benefit side of the picture, the
derived income distributions of the two plans are indicated
in Tables 4-4 and 4-5. The comparison of these two income
distributions with and without transfers is depicted in
Figure 4-1, by use of Lorenz curves, and is summarized in
Table 4-6. By comparing the results of the present distri-
bution of income with transfers paid through the hodge-podge
of methods in use to that obtained under Friedman's negative

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[1] Economic Council of Canada, Fifth Annual Review
(Ottawa: Queen's Printer, 1968), p. 113.

[2] See below for problems and benefits of extending
coverage to farm families.

Table 4-4

Income Distribution of Families and Individuals, under Friedman's

Negative Income Tax, Canada, 1961

			Cumulative	
Income Class	Per Cent of People	Per Cent of Income	Per Cent of People	Per Cent of Income
(1)	(2)	(3)	(4)	(5)
Without Income	0.0	0.0	0.0	0.0
Under $1000	5.8	2.9	5.8	2.9
$1000 - $1999	7.3	4.1	13.1	7.0
$2000 - $2999	10.3	4.5	23.4	11.5
$3000 - $3999	17.0	11.7	40.4	23.2
$4000 - $4999	16.2	13.2	56.6	36.4
$5000 - $5999	13.4	12.8	70.0	49.2
$6000 - $6999	9.2	10.4	79.2	59.6
$7000 - $7999	6.2	8.2	85.4	67.8
$8000 - $9999	6.8	10.5	92.2	78.3
$10000 - $15000	5.3	10.5	97.5	88.8
Over $15000	2.5	11.2	100.0	100.0
Total	100.0	100.0	-	-

Source: Tables A-10 to A21, Appendix A.

Table 4-5

Income Distribution of Families and Individuals, under Theobald's

Guarantee Plan, Canada, 1961

			Cumulative	
Income Class	Per Cent of People	Per Cent of Income	Per Cent of People	Per Cent of Income
(1)	(2)	(3)	(4)	(5)
Without Income	0.0	0.0	0.0	0.0
Under $1000	0.0	0.0	0.0	0.0
$1000 - $1999	7.6	5.4	7.6	5.4
$2000 - $2999	8.3	5.0	15.9	10.4
$3000 - $3999	13.5	10.3	29.3	20.7
$4000 - $4999	27.2	18.3	56.6	39.0
$5000 - $5999	13.4	12.2	70.0	51.2
$6000 - $6999	9.2	10.0	79.2	61.2
$7000 - $7999	6.2	7.9	85.4	69.1
$8000 - $9999	6.8	10.1	92.2	79.2
$10000 - $15000	5.3	10.1	97.5	89.3
Over $15000	2.5	10.7	100.0	100.0
Total	100.0	100.0	-	-

Source: Tables A-22 to A-33, Appendix A.

Legend: No Transfers   ————
               Present System ——————
               Friedman   ···············
               Theobald   —·—·—·—
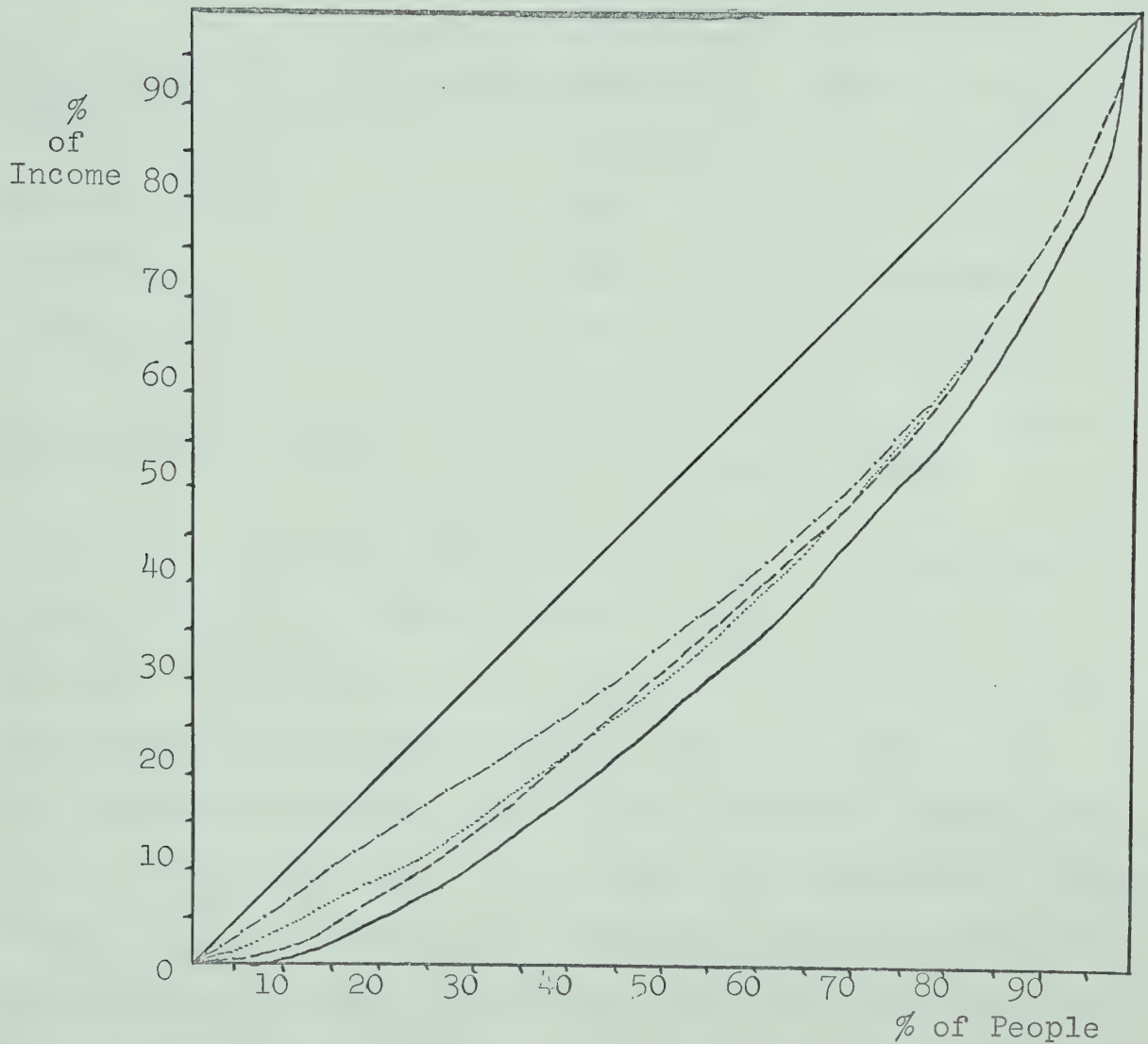
Figure 4-1

Lorenz Curves indicating Comparitive Income Distributions
of Families and Individuals, including transfers,
excluding transfers, under Friedman's Negative
Income Tax, and under Theobald's BES
Proposal, Urban and Rural Non-Farm,
Canada, 1961

Table 4-6

Redistributive Effects of Guaranteed Income

Canada, 1961

| | Per Cent of Income held by: | |
Proposal	Lowest Quartile	Upper Quartile
No Transfers	8.53%	45.17%
Present System	11.47%	43.18%
Friedman	12.29%	43.56%
Theobald	17.66%	42.05%

Derived from: Tables 2-1, 2-2, 4-4, and 4-5, above.

income tax, it can be seen that the burden of redistribution
falls mainly on the middle income classes. That is, the
per cent of national income accruing to the upper quartile
changes very little from 43.18 per cent, whereas the per
cent of income accruing to the lowest quartile increases from
11.47 to 12.29 per cent. Relatively, it is the middle income
classes that are losing out. Similarly, under Theobald's
BES proposal, the major portion of the redistributive effect
is from the middle classes to the poor, although in this
case the rich also play a small part.

Table 4-7 outlines the comparative effects of the
programs under discussion. These calculations are based on
poverty lines suggested by the Economic Council of Canada.
For an individual, the poverty line is $1500; for a two,

Table 4-6

Persons Aided by Various Systems

	No Transfers	Present System	Friedman	Theobald
No. of persons Below poverty line	4,843,261	4,390,513	4,843,261	3,392,807
No. lifted above poverty line	0	452,748	0	1,450,454
No. whose poverty gap is reduced	0	4,261,654	4,354,503	2,904,049
No. not helped	4,843,261	128,859	488,758	448,758
Average Per Capita Income	$1,442	$1,556	$1,506	$1,571
Minimum Income	0 or negative	0 or negative	$550	$1,000

Derived from: Tables A-1 to A-33, Appendix A.

three, or four person family, the lines are $2500, $3000,
and $3500 respectively; for a family of five or more, the
poverty line is $4000.[1]

One of the supposed advantages of any type of guaran-
teed income plan is that it covers all persons in need. It
is of note that the present system of transfers aids more of
the poor than either Friedman's or Theobald's plan. However,
the persons who are not covered are of different groups. The
present system leaves gaps throughout the entire range of
poor individuals and families. Those who are not covered

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[1]Economic Council of Canada, Fifth Annual Review
(Ottawa: Queen's Printer, 1968), pp. 108-109.

by the guaranteed income proposals comprise the group who
are immediately below the poverty line, that is, "those
least in need". In the case of Friedman's negative income
tax, transfers are based on unused deductions and exemptions,
not on poverty lines, which are generally higher. It is
this fact that gives the plan one of its advantages--it is
so easily joined to the mechanism of the positive income
tax.[1] For small families, Theobald's level of payments is
also less than the poverty lines. However, for larger
families, his benefits bring them above the poverty line.

Similarly, the present system of transfers raises
more people above the poverty line than does Friedman's
proposal. The negative income tax, however, is not designed
to raise persons above the poverty line. It is only
designed to fill part of the poverty gap. It is this feature
that makes the cost manageable.

On the other hand, Theobald's plan, BES, with its
high cost, raises three times as many people above the
poverty line as the present system. The majority of persons
who are helped in this way have comparatively large families.

It can be seen from Table 4-8 that Theobald's BES
aids large families more than Friedman's negative income tax
does. Also, the larger the family, the more, comparatively,
they are helped. Similarly, broken families do not seem to

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[1]See below for modification of Friedman's negative
income tax based on poverty lines rather than deductions.

Table 4-8

Aid to Families

Theobald and Friedman

	% Income from Transfer		Index 2 person base		Theobald/ Friedman
	Friedman	Theobald	Friedman	Theobald	Friedman
(1)	(2)	(3)	(4)	(5)	(6)
Non-separated					
1 person	10.14	14.15	3.13	2.37	0.76
2 person	3.24	5.96	1.00	1.00	1.00
3 person	2.21	4.62	0.68	0.78	1.14
4 person	2.04	4.33	0.62	0.73	1.17
5 person	3.03	7.04	0.93	1.18	1.27
6 person	5.19	12.67	1.60	2.13	1.33
Broken					
2 person	9.74	17.99	3.01	3.02	1.00
3 person	7.56	15.12	2.33	2.54	1.08
4 person	6.45	13.53	1.99	2.27	1.14
5 person	7.92	17.58	2.44	2.96	1.21
6 person	12.30	25.43	3.80	4.27	1.12

Derived from: Tables A-10 to A-20, and Tables A-22 to A-32, Appendix A.

be helped as much as non-separated families, by either of the two proposals. Although broken families receive a larger percent of their income from transfers, a broken family is consistently further below the poverty line than a non-separated family of the same size.

In comparison to the present system of transfers, it can be seen from Table 4-9 that both Friedman's and Theobald's proposals help non-separated families more than the present system, with Theobald's BES giving the most aid. However,

Table 4-9

Average Per Capita Income under Various Plans

Canada, 1961

	No Transfers	Present System	Friedman	Theobald
(1)	(2)	(3)*	(4)	(5)
Non-separated				
1 person	1,763.0	2,137.6	1,940.7	2,053.6
2 person	2,238.6	2,307.1	2,313.5	2,371.5
3 person	1,742.5	1,796.0	1,781.4	1,827.1
4 person	1,432.7	1,479.7	1,462.5	1,498.4
5 person	1,183.3	1,188.5	1,220.3	1,273.5
6 person	955.7	958.3	1,008.4	1,095.2
Broken				
2 person	1,255.0	2,307.1	1,385.5	1,524.9
3 person	1,132.0	1,796.0	1,235.8	1,339.6
4 person	1,033.9	1,479.7	1,114.8	1,195.7
5 person	868.4	1,188.5	943.2	1,046.7
6 person	672.6	958.3	767.0	896.8

Derived from: Tables A-1 to A-6, A-10 to A-20, A-22 to A-32, Appendix A.
*This column is an average for both separated and non-separated families. Actually, the figures for non-separated should be higher, and those for broken families should be lower.

for broken families, the present system of transfers acheives greater benefits, with Theobald's BES in second place. As family size increases, however, Theobald's scheme more closely approximates the benefits from the present system. The fact that the present system seems to do the best job in aiding broken families is only a reflection of administrative details, that is, in many cases, only broken families, a relatively small section of the population, are eligible

for aid.

It must be noted that although per capita income falls with increases in family size under all these alternatives, total family income is increasing.

Both Theobald's BES and Friedman's negative income tax ensure that everyone receives some income. In neither case is this minimum comparable with the Economic Council of Canada's poverty lines. Friedman's income supplements never reach this level, whereas, in the case of BES, small families remain slightly below the poverty line and larger families remain slightly above it.

On the whole, both guaranteed income plans seem to do a better job than the present system, with respect to getting money into the hands of those with the greatest need.

Chapter 5 - Conclusions and Recommendations

Viewing the cost side of the picture, it can be seen that guaranteed income is well within the reach of the federal government, especially from Friedman's viewpoint.[1] On the benefit side, guaranteed income proposals do have a beneficial effect on the distribution of income, despite some drawbacks. However, guaranteed income schemes have many other effects which must be taken into account when weighing the overall picture.

One of the major complaints about the present system of transfer payments is that they offer no incentive to work. In discussing this question, it is useful to differentiate between the effects of average and marginal tax rates. Present "positive" tax policy has both positive average and marginal tax rates. Under a guaranteed income situation, the average tax rate is zero at that level of income at which a family becomes eligible for allowances under a guaranteed income plan, that is, the breakeven point. As their income falls, the average tax rate becomes negative (since they are receiving money), and approaches minus infinity as income approaches zero. On the other hand, the marginal tax rate is positive and high, compared to the level of marginal tax rates on the other side of the break-even point.

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[1] See below for methods of financing the extra expenditure nedded under Theobald's BES.

Taxes can be thought of as having two separate effects: an income effect and a substitution effect. The substitution effect of taxes is a substitution of work for leisure, and is reflected in the marginal tax rate. That is, the marginal tax rate indicates after-tax return from an extra hour of work. This in turn is reflected in the average tax rate. The income effect of taxes could be expected to increase work effort, in order that losses due to taxation can be offset. The positive income tax has, therefore, income and substitution effects which tend to work in opposite directions, although they may not be completely offsetting.

If a guaranteed income plan were accepted, the high marginal tax rate would cause substitution of leisure for work. The effect of a guaranteed income proposal is to raise incomes, therefore less work would have to be done in order to remain at the same standard of living as before. The total effect would thus be to reduce work effort, especially for those who were earning less than the minimum income guarantee.[1]

This disincentive effect of high marginal tax rates assumes that the poor put a premium on leisure. However, in a country like Canada, leisure tends to be an expensive commodity. Perhaps leisure should be more aptly named recreation. This would tend to have an offsetting effect

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[1]R. Musgrove, The Theory of Public Finance (New York: McGraw-Hill, 1959), p. 252.

on the disincentive, since extra income is needed to fully participate in Canada's leisure activities.

Effects on the total work force would not be as large as the above seems to indicate. A large percentage of the poor are unable, for reasons of age, disability, or family responsibility, to enter the work force. Christopher Green feels that:

> If the past trend continues, the percentage of poor families who are aged, have no male head, or have a disabled head, is likely to grow. Therefore, increasingly the poor are those for whom good reasons can be given for not working. If this percentage were to approach 100 per cent, it might be possible to have an allowance tax rate that is 100 per cent, or close to it, without substantially reducing the amount of work effort.[1]

Another factor which may create a disincentive to work is the level of the minimum income guarantee. If this was substantially high, there might be families who would be satisfied with the level of income provided through transfers. A tongue-in-cheek statement by Philip Wogaman states that:

> Guaranteed income as a secure economic floor will make it possible for man to become what God intended them to become by free response. The fact that many will doubt-less abuse this freedom is a risk which God has taken in creating man in the first place.[2]

What would the real cost of this reduction in work effort? It is estimated that the total income of the poor

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[1] C. Green, Negative Taxes and the Poverty Problem (Washington, D.C.: The Brookings Institution, 1967), p. 124.

[2] P. Wogaman, Guaranteed Income--The Moral Issues (New York: Abingdon Press, 1968), p. 79.

in 1961 was 2.82 billion dollars, 61.2 per cent of which was derived from labor income (wages and salaries). If the disincentive effect of guaranteed income completely nullified work effort, the personal income of the poor would fall by approximately 1.73 billion dollars. If there were perfect competition in the economy, GNP would fall by the same amount. This would be the real cost of such a disincentive.[1]

There are other incentive effects involved in guaranteed income. It might create some incentive to raise the birth rate; it might occur especially among low income families. Evidence indicates that as family income rises, family size falls. However, a plan which gives additional benefits, at a given level of income, for an additional family member, may reverse this relationship. It is doubtful that a plan providing, for example, $500 per additional child per year would induce an upper-class family, with an income of $10,000, to have another child. Yet, to a family with very small income, the $500 may look very attractive. An income guarantee could be devised that would minimize the incentive to add to the size of low-income families. Tobin's plan is an example of this type of proposal: benefits are gradually or abruptly reduced for members of the family which bring it above a certain size. Alvin

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[1] For further information on effects on work effort of a guaranteed income, see A.G. Pigou, The Economics of Welfare (London: Macmillan and Co., Ltd., 4th edition, 1960), pp. 720-728, 758-767.

Schorr states that:

> A rigorous scientific demonstration has not been pro-
> vided that income maintenance will lead to a higher
> birth rate or that it will not. A new income maintenance
> program would in all probability lead some people,
> including some people who are poor, to have additional
> children. But this effect would probably be trivial in
> relation to concurrent developments and not discernible
> in subsequent population figures. Balancing any small
> effect, a substantial income maintenance program should
> significantly improve the circumstances of many families.
> In their children's generation, at least, it may provide
> the competence and climate to acheive the family size
> that that generation genuinely wants.[1]

The major reason for the failure of the Speenhamland
system was that it offered employers a reason for lowering
wages. Under, for example, Friedman's proposal, a reduction
in wages of one dollar causes an increase in allowances of
fifty cents. In cases where an employee has wages that exceed
the guaranteed income, it is doubtful that employers would
be any more able to reduce wages than they are now. C. Green
feels that:

> In industries where the annual wage is less than the
> guaranteed minimum income, resistance to wage cuts may
> be weakened because the guaranteed minimum income assures
> that the workers income would be higher than before. Off-
> setting this effect is the possibility that a guaranteed
> minimum income would reduce the supply of low-paid labour,
> (since some persons would no longer be willing to work
> for the low wages) thus creating a tendancy to push wages
> up.[2]

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[1] A. Schorr, "Income Maintenance and the Birth Rate,"
Social Security Bulletin, Vol. 28 (December, 1965), p. 30,
cited in C. Green, Negative Taxes and the Poverty Problem
(Washington, D.C.: The Brookings Institution, 1967), p. 137.

[2] C. Green, Negative Taxes and the Poverty Problem
(Washington, D.C.: The Brookings Institution, 1967), p. 128.

Another problem which may also be created by guaranteed income plans is an incentive for employers and employees to enter into wage agreements. For example, an employer might agree to withhold wages so that the employee becomes eligible for an allowance. Then at some later date, the employer could return something less than 100 per cent of the withheld wages. If the positive tax schedule were substantially less than the negative tax schedule, both could gain.

On the whole, however, guaranteed income solves many of the problems associated with the multitude of plans which exist at the present. Although guaranteed income also has problems associated with it, many of these could be solved or lessened by slight alterations in the basic plans.

There are also a number of technical problems which are involved. The basic problem consists of finding an equitable definition of income. For the purposes of this thesis, taxable income and unused deductions and exemptions have been used as the base. However, income in kind, gifts, and non-income producing assets present a problem. For example, should a family which owns its own home, and receives zero income from other sources be given the same allowance as a family which also has zero income but owns its own home? Using the present tax base does not allow for such differences. A tax base riddled with as many deductions and exemptions as that of the United States would produce indefensible inequities if a guaranteed

income plan which was based on deductions and exemptions were introduced. In Canada, we are more fortunate in that our tax base is more equitable under such conditions. However, the Canadian tax base could be improved. Since the taxation system would be used to fulfill a welfare goal, a welfare-oriented base should be used. In other words, the family is the appropriate unit of taxation. Also, the family's money income more nearly approximates a welfare definition than does gross adjusted income--the definition which is now used for income tax purposes.

Christopher Green feels that the present income tax discriminates against the poor, that is, neither a family of four with no income, nor a family of four with $3000 income pays any tax. Both cuts in tax rates and increases in the dollar value of exemptions and standard deductions do almost nothing for the poor. Therefore, more equity could be produced in the tax system if negative rates were introduced. He states that:

> If the negative tax rate or rates were to be above 25
> per cent, the poverty income gap should be substituted
> for deductions and exemptions in the tax base. Once
> equity plays second fiddle to welfare or anti-poverty
> goals, the arguement that negative rates taxation would
> further rationalize the individual income tax is weakened.
> It would be preferable to use the poverty income gap as
> a base since it would provide greater equity in the
> treatment of poor families of different sizes.[1]

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[1] C. Green, Negative Taxes and the Poverty Problem
(Washington, D.C.: The Brookings Institution, 1967), p. 59.
This statement is based on Green's conversations with
Robert Lampman.

However, one of the advantages of some of the guaranteed income proposals is that they can be easily joined with the present tax system. By bringing in a welfare tax unit, the family, equity could be improved. This tax unit would however, bring other problems, those created by changing the tax unit throughout the entire economy. There are two factors which may cause family members to file individual returns: (1) this problem arises because the poverty line for a three member family is only double that of a single member unit; and (2) the other problem arises if the tax rate below the break-even level of income substantially exceeds that above the break-even level. If a family tax unit is adopted, this may create a minor inducement to split the family into smaller units.[1]

Also, many people, especially those in the social-welfare field, feel that the present tax base, at today's prices, does not provide enough deductions to create a minimum subsistence level. If this was the original aim of the federal income tax exemption, it should be restored and exemptions and deductions raised to a level compatible with minimum subsistence. Theobald feels that:

> An immediately higher level for the exemption would probably not be wise, for it is essential that the operation of the scheme be efficient, and this goal might not be acheived if the initial number of

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[1]R. Theobald, ed., The Guaranteed Income (Garden City, New York: Doubleday & Company, Inc., 1966), p. 235.

beneficiaries were too high. An overload and consequent breakdown of the plan would be disastrous for confidence in the feasibility of the plan.[1]

Fluctuating incomes would also create a problem. Green gives two examples to show why some form of averaging would be useful. If a family who makes an income well in excess of their poverty line and decides to take a year off for a holiday, financed by past saving, should they be eligible for a net allowance? It seems reasonable to prohibit negative tax or social dividend payments for such a family. This could be done by stating that if a family's income averages more than two or three times its poverty line, over some previous period, it is ineligible for transfer allowances. Similarly, a family's allowance might be based on the difference between its poverty line or the value of its standard deductions and exemptions and its average money income over several preceeding years. If the negative tax rate were a single flat figure, it would make little differ- ence and averaging would not be necessary. However, if there were multiple rates, averaging would improve the amount of the payment if the rates were progressive, whereas the opposite would be true if the rates were regressive.[2]

Obviously, a single payment to alleviate poverty,

[1] R. Theobald, ed., The Guaranteed Income (Garden City, New York: Doubleday & Company, Inc., 1966), p. 235.

[2] C. Green, Negative Taxes and the Poverty Problem (Washington, D.C.: The Brookings Institution, 1967), pp. 105-109.

under the auspices of the federal government, would remove
problems concerning lack of communication and coordination
between the various agencies and government departments
which now occurs. Also, by making a single payment to the
recipients of negative income tax or social dividend
taxation payment, all problems pertaining to multiple pay-
ments in cash and voucher form would be alleviated. The
administrative load would be lessened greatly, allowing
social workers to concentrate on removing the causes of
poverty, rather than spending the majority of their time
handling payments and administrative details.

The procedures for the payments of such a guaranteed
income to so many millions of people in such a bewildering
variety of circumstances would of course be extremely
complicated, but no more so than the present internal revenue
code; and like that of the progressive personal income tax,
the principle involved is simple.[1] A guaranteed income
plan, especially a negative income tax, could be easily
handled through the "positive income tax" branch, the
Department of National Revenue. With computers becoming a
part of everyday life, the majority of the routine handling
of payments, verifications, and so on, could be easily
automated. Total administrative staff would probably drop
quite drastically as a result of this. In other words,

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[1]C.E. Ayres, "Guaranteed Income: An Institutionalist
View," in The Guaranteed Income, ed. by R. Theobald (Garden
City, New York: Doubleday & Company, Inc., 1966), p. 178.

after the new system has settled down, administrative costs
of a guaranteed income would probably be less than present
administrative costs.

A good welfare plan should provide income at regular
intervals and when it is needed. It would be undesirable
to make the payments once a year and/or a year after they
are needed. If there was a lag of a year, fluctuating
incomes would tend to depress allowances when the family's
income fell and to raise allowances when the family's income
rose. These points raise two administrative problems:
(1) how to predict the income deficit; and (2) how to handle
problems of overpayment . In regard to the former, many
of the persons to whom payment would be made would have never
handled income tax statements and would have no idea of how
to project income. This problem could be handled by having
present social workers aid the poor in presenting their
claims. It would be hoped that in time the poor could
take over this function themselves. The latter problem
could be handled in one of two ways: (1) ask the beneficiary
to make a money refund; and/or (2) withhold benefits the
following year equal to the overpayment.

What would be the role of present public assistance
payments, if a guaranteed income proposal were adopted?
Although guaranteed income is designed to replace present
transfers, persons now receiving transfers cannot be made
worse off. Under plans which have small payments, for
example, Friedman's negative income tax, certain persons

will receive less than they did before. The amount of
their negative income tax payment will have to be supplemented
by public assistance. This would create a problem of inter-
dependence. That is, the amount paid by the public assistance
agency would depend on the amount of the negative tax payment,
while the reverse would also be true. Since the poor receive
at present, and would continue to receive, a large portion
of their income from transfer payments, these payments must
be considered as income. The following example illustrates
the problem. Assume a family of four with no income under
Friedman's negative income tax. In the first year, the
expected income would be zero, and the negative tax payment
would be $1600. Suppose that previously the family was
receiving $1800. They would get a supplement of $200 from
a social welfare agency. In the second year, the family's
expected income would be $200. The negative tax payment
would become $1500 and the social welfare agency would
have to contribute $300. This would continue until the
process stabilized at $1400 from the negative income tax
and $400 from the welfare agency. The only solution to
this problem is to increase the deductions and exemptions
(as mentioned above) to ensure that no one becomes worse
off, or replace the base of unused deductions and exemptions
with a poverty line concept. Using a poverty line concept,
however, would cause the plan to lose one of its major
advantages: that of fitting neatly into the present tax system.
Under a plan which was based on poverty lines, a small

family might be in the position of being both taxable and
eligible for allowances. It is to be hoped, of course,
that as prices and the standard of living increase, guaranteed
income payments would increase proportionately.

Theobald's BES proposal raises other problems, notably
method of financing. One alternative would be a special tax
schedule which would raise the required revenues. The most
logical choice of schedule would be a proportional one. If
it were regressive, it would contradict the ability-to-pay
principles. On the other hand, if it were progressive,
adding high marginal finance tax rates onto the present
marginal positive tax rates on upper income groups may well
lead to total marginal tax rates approaching or even exceeding
100 per cent. This would no doubt have undesirable incentive
effects on work effort. It would be possible to lump together
allowance, finance, and income tax schedules and apply them
to an agreed upon income base. On the other hand, if there
were some difficulty in agreeing on a common income measure,
there could be two separate schedules. D.B. Smith suggests
a flat 40 per cent rate on all income (based on 1963 data)
to be applyed to finance all government expenditures,
including redistribution,[1] to replace the present tax schedule[2]

[1] D.B. Smith, "A Simplified Approach to Social Welfare",
Canadian Tax Journal, Vol. 13 (May-June, 1965), p. 261.

[2] For further information on financing, see C. Green,
Negative Taxes and the Poverty Problem (Washington, D.C.:
The Brookings Institution, 1967), pp. 149-157.

Another disadvantage of Theobald's BES is the
"notch" problem. One of the major requirements of any
guaranteed income scheme is that it be equitable, that is,
does it treat families who are alike in socio-economic
status equally? As can be seen from Table A-27, Appendix
A, BES is not always equitable. As a family approaches the
break-even point, the 10 per cent premium often places the
family above a similar family that is slightly above the
break-even point and therefore not eligible for BES. One
method of remedying this problem is suggested by Schwartz
(see Table 3-2). By increasing the income tax rate as the
break-even point is approached, the "notch" problem is avoided.
Theobald's proposal could be modified to reach the objective
of equity by lifting a family to 90 per cent of their break-
even point and then allowing a 10 per cent premium. For
example, a family of four has a break-even point of $3200.
When the family has an income of $1500, they receive $1380
to lift them to the "new" break-even point of $2880, plus
$150 (10 per cent of their earned income). If the family·
had an earned income of $2880, they would receive the 10 per
cent premium only, giving them a total income of $3200, at
which point the positive tax schedule would take over. At
any point between $2800 and $3200, they would receive a
smaller and smaller premium, which would lift them only as
far as $3200. This would preserve equity.

Although the load of redistribution would fall
quite heavily on the shoulders of the federal government,

in compensation, the provincial and municipal governments would be relieved of a large drain on their resources, as well as freeing many persons for work in other areas.

Obviously, there would be a real cost in both time and money during the changeover from one system to the other. This could be reduced in the following manner. Allow all persons who are not receiving any transfer payments, yet who are qualified for the guaranteed income plan, to begin the changeover. The initial organizational problems could be smoothed out during this period. After these persons are receiving their payments, incorporate, one by one, persons who are now receiving Old Age Pensions, Family Allowance, and so on. In this way, confusion and costs could be minimized.

One particularly interesting experiment is under way in the United States, the results of which will help to solve some of the problems involved. Various forms of negative income tax are being paid to approximately 1,000 low-income family heads in the state of New Jersey over a three year period. The results of this experiment will indicate the practical feasibilities of implementing different systems of negative income tax.

In this thesis we have been dealing with urban and rural non-farm families, due, in part, to the difficulties of measuring farm income. Also, not all transfer payments have been under discussion. However, guaranteed income could theoretically be expanded to replace, in whole or in part,

all transfer and subsidy payments. For example, price support
programs are a type of transfer payment for the farming
sector of the economy. If these supports were removed,
·many farmers would have inadequate income; indeed, many
have inadequate income with price supports. They would
then be eligible for negative tax, or social dividend
allowances. Agricultural prices would become market deter-
mined and agricultural products would become cheaper.

        This thesis has examined only a very small portion
of the effects which a guaranteed income could have on the
Canadian economy. There are other aspects which could and
should be examined. For example, in the allocative and
distributive sphere, a guaranteed income could have profound
effects on demand patterns. Also, guaranteed income may
have demographic effects. Taking a sociological point of
view, personal orientation to and expectations of society
may change radically.

        In conclusion it can be seen that guaranteed income
proposals could solve some of the major problems associated
with the present Canadian system of transfers. For example,
the effective 100 per cent tax rate would be removed, and
there would be less chance of persons being ineligible for
assistance due to the fact that they do not fit into one of
the prescribed categories. While guaranteed income does
create its own unique problems, the majority of these are of
an administrative nature and could be solved.

This country has made an implied committment to guarantee personal income by having any sort of transfer program at all, by using one of the above proposals, the distribution of income in Canada could be improved. As this is one of the goals of the country, as set out by the Economic Council of Canada, and since many of the proposals are well within the means of the government, we have the duty to redistribute income in the most efficient way possible--through use of a guaranteed income plan.

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Appendix A

There are basically three sets of tables included in this appendix: Tables A-1 to A-9; Tables A-10 to A-21; and Tables A-22 to A-33.

In the first set of tables, Tables A-1 to A-6 are all similar. Column (2) is from unpublished data from the Dominion Bureau of Statistics, 1961 Census; Column (3) is taken from Table 4-1; Column (4) is Column (2) times Column (3); Column (5) is also from unpublished Census data from the Dominion Bureau of Statistics; and Column (6) is Column (4) times Column (5).

In the second and third sets of tables, Tables A-10 to A-20 and Tables A-22 to A-32 are basically alike. Column (2) is taken from Column (4) of the respective family grouping in Tables A-1 to A-6. Column (3) is derived from the formula at the bottom of each page. Column (4) is Column (2) plus Column (3). Column (5) is taken from Column (5) of the respective family group in Tables A-1 to A-6 and separated into broken and non-separated subdivisions through use of Table A-9. Column (6) is Column (4) times Column (5). Column (7) is Column (3) times Column (5).

In deriving the amount of transfer, under Friedman's negative income tax, it is assumed that the valid deductions and exemptions are as follows: $1,000 for the head of the house; $1,000 for his wife (to preserve equity); $550 for a child; and a standard $100 medical deduction.

Table A-1

Non-transfer Income of 1-person Families

Income Class (1)	Average Total Income ($) (2)	Per Cent Non-Transfer Income (3)	Average Non-transfer Income ($) (4)	Number of Units (5)	Total Income ($000,000's) (6)
Without Income	—	—	—	101,212	—
Under $1000	614	35.0	215	429,123	92
$1000 - $1999	1,418	60.3	855	273,705	234
$2000 - $2999	2,423	81.4	1,972	216,676	427
$3000 - $3999	3,383	91.7	3,102	195,073	605
$4000 - $4999	4,359	94.1	4,102	92,774	381
$5000 - $5999	5,326	95.4	5,081	43,761	222
$6000 - $6999	6,346	95.8	6,079	20,884	127
$7000 - $7999	7,375	96.5	7,117	10,916	78
$8000 - $9999	8,768	96.9	8,496	9,991	85
$10000 - $15000	11,702	97.9	11,456	8,068	92
Over $15000	27,401	98.9	27,100	5,077	138
Average Per Capita Income	2,137.6		1,763.1		
Average Family Income	2,137.6		1,763.1		
Totals				1,407,260	2,481

Table A-2

Non-transfer Income of 2-person Families

Income Class	Average Total Income ($)	Per Cent Non-Transfer Income	Average Non-transfer Income ($)	Number of Units	Total Income ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)
Without Income	—	—	—	11,736	—
Under $1000	562	35.0	197	72,231	14
$1000 - $1999	1,495	60.3	901	167,564	151
$2000 - $2999	2,464	81.4	2,006	141,768	284
$3000 - $3999	3,449	91.7	3,163	161,700	511
$4000 - $4999	4,435	94.1	4,218	141,024	595
$5000 - $5999	5,419	95.4	5,170	111,081	574
$6000 - $6999	6,418	95.8	6,148	85,815	528
$7000 - $7999	7,416	96.5	7,156	60,069	430
$8000 - $9999	8,777	96.9	8,505	61,325	522
$10000 - $15000	11,663	97.9	11,418	38,965	445
Over $15000	27,069	98.9	26,771	19,843	531
Average Per Capita Income	2,307.1		2,136.3		
Average Family Income	4,614.2		4,272.6		
Totals				1,073,121	4,585

Table A-3

Non-transfer Income of 3-person Families

Income Class	Average Total Income ($)	Per Cent Non-Transfer Income	Average Non-transfer Income ($)	Number of Units	Total Income ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)
Without Income	—	—	—	1,065	—
Under $1000	465	35.0	163	30,660	5
$1000 - $1999	1,540	60.3	929	50,512	47
$2000 - $2999	2,513	81.4	2,046	82,444	169
$3000 - $3999	3,496	91.7	3,206	125,108	401
$4000 - $4999	4,461	94.1	4,198	130,523	547
$5000 - $5999	5,434	95.4	5,184	106,893	554
$6000 - $6999	6,433	95.8	6,163	76,791	473
$7000 - $7999	7,436	96.5	7,176	52,771	379
$8000 - $9999	8,805	96.9	8,532	55,166	471
$10000 - $15000	11,654	97.9	11,409	37,441	427
Over $15000	25,592	98.9	25,310	16,311	413
Average Per Capita Income	1,796.0		1,691.9		
Average Family Income	5,338.0		5,075.6		
Totals				765,685	4,002

Table A-4

Non-transfer Income of 4-person Families

Income Class	Average Total Income ($)	Per Cent Non-Transfer Income	Average Non-transfer Income ($)	Number of Units	Total Income ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)
Without Income	—	—	—	181	—
Under $1000	469	35.0	164	20,101	3
$1000 - $1999	1,553	60.3	936	33,540	31
$2000 - $2999	2,538	81.4	2,066	64,265	133
$3000 - $3999	3,520	91.7	3,228	113,187	365
$4000 - $4999	4,481	94.1	4,217	141,891	598
$5000 - $5999	5,440	95.4	5,180	119,388	620
$6000 - $6999	6,442	95.8	6,171	84,043	519
$7000 - $7999	7,448	96.5	7,187	57,392	412
$8000 - $9999	8,826	96.9	8,552	63,576	544
$10000 - $15000	11,698	97.9	11,452	48,099	551
Over $15000	24,751	98.9	24,479	21,896	536
Average Per Capita Income	1,479.7		1,404.6		
Average Family Income	5,918.7		5,618.4		
Totals				767,559	4,312

Table A-5

Non-transfer Income of 5-person Families

Income Class (1)	Average Total Income ($) (2)	Per Cent Non-Transfer Income (3)	Average Non-transfer Income ($) (4)	Number of Units (5)	Total Income ($000,000's) (6)
Without Income	—	—	—	26	—
Under $1000	441	35.0	154	11,849	2
$1000 - $1999	1,534	60.3	925	19,554	18
$2000 - $2999	2,541	81.4	2,068	39,338	81
$3000 - $3999	3,521	91.7	3,229	71,213	230
$4000 - $4999	4,479	94.1	4,215	89,927	379
$5000 - $5999	5,439	95.4	5,189	79,942	415
$6000 - $6999	6,447	95.8	6,176	52,029	321
$7000 - $7999	7,452	96.5	7,191	35,639	256
$8000 - $9999	8,843	96.9	8,569	40,323	346
$10000 - $15000	11,798	97.9	11,550	32,972	381
Over $15000	25,089	98.9	24,813	16,614	412
Average Per Capita Income	1,220.6		1,161.1		
Average Family Income	6,102.9		5,805.3		
Totals				489,426	2,841

Table A-6

Non-transfer Income of 6-person Families

Income Class	Average Total Income ($)	Per Cent Non-Transfer Income	Average Non-transfer Income ($)	Number of Units	Total Income ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)
Without Income	-	-	-	21	-
Under $1000	573	35.0	201	15,720	3
$1000 - $1999	1,553	60.3	936	30,945	29
$2000 - $2999	2,540	81.4	2,068	54,420	113
$3000 - $3999	3,535	91.7	3,242	86,158	279
$4000 - $4999	4,496	94.1	4,231	99,827	422
$5000 - $5999	5,466	95.4	5,335	85,160	445
$6000 - $6999	6,464	95.8	6,193	54,727	339
$7000 - $7999	7,463	96.5	7,202	36,858	265
$8000 - $9999	8,871	96.9	8,596	42,397	364
$10000 - $15000	11,810	97.9	11,660	36,826	429
Over $15000	25,613	98.9	25,331	18,118	459
Average Per Capita Income	985.5		934.8		
Average Family Income	5,912.7		5,608.7		
Totals				561,177	3,147

Table A-7

Total Income Excluding Transfers

Canada, 1961

Income Class	No. of People	Total Income ($000,000's)
Without Income	128,859	-
Under $1000	2,077,503	629
$1000 - $1999	216,676	427
$2000 - $2999	1,311,137	780
$3000 - $3999	2,077,503	2,391
$4000 - $4999	2,219,558	2,923
$5000 - $5999	1,974,824	2,830
$6000 - $6999	1,347,566	2,307
$7000 - $7999	918,278	1,820
$8000 - $9999	1,008,440	2,332
$10000 - $15000	776,533	2,325
Over $15000	373,058	2,489
Total	14,734,985	21,253

Derived from: Tables A-1 to A-6, above.

Average Income: $1,442.4

Table A-8

Total Income Including Transfers

Canada, 1961

Income Class	No. of People	Total Income ($000,000's)
Without Income	128,859	-
Under $1000	899,534	342
$1000 - $1999	1,177,969	847
$2000 - $2999	1,527,814	1,483
$3000 - $3999	2,219,558	2,609
$4000 - $4999	2,382,552	3,100
$5000 - $5999	1,974,824	2,966
$6000 - $6999	1,347,566	2,408
$7000 - $7999	918,278	1,886
$8000 - $9999	1,008,440	2,405
$10000 - $15000	776,533	2,371
Over $15000	373,058	2,516
Total	14,734,985	22,933

Derived from: Tables A-1 to A-6, above.

Average Income $1,556.4
Total Transfers $1,680.0

Table A-9

Broken Families, Canada, 1961

Income Class	Per Cent Broken
Without Income	31.7
Under $1000	31.7
$1000 - $1999	16.7
$2000 - $2999	12.7
$3000 - $3999	8.2
$4000 - $4999	5.8
$5000 - $5999	4.7
$6000 - $6999	4.5
$7000 - $7999	4.4
$8000 - $9999	4.5
$10000 - $15000	4.6
Over $15000	4.2

Source: Dominion Bureau of Statistics, 1961 Census of
Canada, Vol. 4, Population Sample, Published by
the authority of the Minister of Trade and Commerce,
(Ottawa: Queen's Printer, 1961), pp. C6-1 and C6-2.

Table A-10.

Unattached Individuals, Total Income, Cost to Government, and Transfers under Friedman's Negative Income Tax

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	—	550	550	101,212	56	56
Under $1000	215	443	658	429,123	282	190
$1000 - $1999	855	123	978	273,705	268	34
$2000 - $2999	1,972	—	1,972	216,676	427	—
$3000 - $3999	3,102	—	3,102	195,073	605	—
$4000 - $4999	4,102	—	4,102	92,774	381	—
$5000 - $5999	5,081	—	5,081	43,761	222	—
$6000 - $6999	6,079	—	6,079	20,884	127	—
$7000 - $7999	7,117	—	7,117	10,916	78	—
$8000 - $9999	8,496	—	8,496	9,991	85	—
$10000 - $15000	11,456	—	11,456	8,068	92	—
Over $15000	27,100	—	27,100	5,077	138	—
Average Per Capita Income	1,763.0		1,940.7			
Average Family Income	1,763.0		1,940.7			
Totals				1,407,260	2,761	280

Transfer for an Individual: $\dfrac{1000 + 100 - \text{Income}}{2}$

Table A-11

2-person Families: Total Income, Cost to the Government, and
Transfers under Friedman's Negative Income Tax

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	-	1,050	1,050	8,016	8	8
Under $1000	197	952	1,149	49,334	56	46
$1000 - $1999	901	600	1,501	139,581	210	84
$2000 - $2999	2,006	47	2,053	123,763	254	6
$3000 - $3999	3,163	-	3,163	148,441	470	-
$4000 - $4999	4,218	-	4,218	132,845	560	-
$5000 - $5999	5,170	-	5,170	105,860	547	-
$6000 - $6999	6,148	-	6,148	81,953	504	-
$7000 - $7999	7,156	-	7,156	57,426	411	-
$8000 - $9999	8,505	-	8,505	58,565	498	-
$10000 - $15000	11,418	-	11,418	37,173	424	-
Over $15000	26,771	-	26,771	19,010	509	-
Average Per Capita Income	2,238.6		2,313.5			
Average Family Income	4,477.3		4,627.0			
Totals				961,967	4,451	144

Transfer for a 2-person family, unbroken: $\dfrac{2000 + 100 - \text{Income}}{2}$

Table A-12

2-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Friedman's Negative Income Tax

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	-	825	825	3,720	3	3
Under $1000	197	727	924	22,897	21	17
$1000 - $1999	901	375	1,276	27,983	35	10
$2000 - $2999	2,006	-	2,006	18,005	36	-
$3000 - $3999	3,163	-	3,163	13,259	42	-
$4000 - $4999	4,218	-	4,218	8,179	35	-
$5000 - $5999	5,170	-	5,170	5,221	27	-
$6000 - $6999	6,148	-	6,148	3,862	24	-
$7000 - $7999	7,156	-	7,156	2,643	19	-
$8000 - $9999	8,505	-	8,505	2,760	23	-
$10000 - $15000	11,418	-	11,418	1,792	21	-
Over $15000	26,771	-	26,771	833	22	-
Average Per Capita Income	1,255.0		1,385.5			
Average Family Income	2,510.0		2,770.9			
Totals				111,154	308	30

Transfer for a 2-person, broken, family: $\dfrac{1000 + 550 + 100 - \text{Income}}{2}$

Table A-13

3-person Families: Total Income, Cost to the Government, and Transfers Under Friedman's Negative Income Tax

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	-	1,325	1,325	670	1	1
Under $1000	163	1,244	1,407	19,285	27	24
$1000 - $1999	929	861	1,790	42,076	75	36
$2000 - $2999	2,046	302	2,348	71,974	169	22
$3000 - $3999	3,206	-	3,206	114,849	368	-
$4000 - $4999	4,198	-	4,198	122,953	516	-
$5000 - $5999	5,184	-	5,184	101,869	528	-
$6000 - $6999	6,163	-	6,163	73,335	452	-
$7000 - $7999	7,176	-	7,176	50,449	362	-
$8000 - $9999	8,532	-	8,532	52,684	449	-
$10000 - $15000	11,409	-	11,409	35,719	408	-
Over $15000	25,310	-	25,310	15,626	395	-
Average Per Capita Income	1,742.5		1,781.4			
Average Family Income	5,227.5		5,344.3			
Totals				701,489	3,749	83

Transfer for a 3-person family, unbroken: $\dfrac{2000 + 550 + 100 - \text{Income}}{2}$

Table A-14

3-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Friedman's Negative Income Tax

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	–	1,100	1,100	395	–	–
Under $1000	163	1,019	1,182	11,375	14	12
$1000 – $1999	929	636	1,565	8,436	13	5
$2000 – $2999	2,046	77	2,123	10,470	24	1
$3000 – $3999	3,206	–	3,206	10,259	33	–
$4000 – $4999	4,198	–	4,198	7,570	32	–
$5000 – $5999	5,184	–	5,184	5,024	26	–
$6000 – $6999	6,163	–	6,163	3,456	21	–
$7000 – $7999	7,176	–	7,176	2,322	17	–
$8000 – $9999	8,532	–	8,532	2,482	21	–
$10000 – $15000	11,409	–	11,409	1,722	20	–
Over $15000	25,310	–	25,310	685	17	–
Average Per Capita Income	1,132.0		1,235.8			
Average Family Income	3,395.9		3,707.4			
Totals				64,196	238	18

Transfer for a 3-person, broken, family: $\dfrac{1000 + 1100 + 100 - \text{Income}}{2}$

Table A-15

4-person Families: Total Income, Cost to the Government, and
Transfers Under Friedman's Negative Income Tax

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	-	1,600	1,600	124	-	-
Under $1000	164	1,518	1,682	13,729	23	21
$1000 - $1999	936	1,132	2,068	27,939	58	32
$2000 - $2999	2,066	567	2,633	56,103	148	32
$3000 - $3999	3,228	-	3,228	103,906	335	-
$4000 - $4999	4,217	-	4,217	133,661	564	-
$5000 - $5999	5,180	-	5,180	113,777	590	-
$6000 - $6999	6,171	-	6,171	80,261	496	-
$7000 - $7999	7,187	-	7,187	54,867	394	-
$8000 - $9999	8,552	-	8,552	60,715	519	-
$10000 - $15000	11,452	-	11,452	45,886	525	-
Over $15000	24,479	-	24,479	20,976	513	-
Average Per Capita Income	1,432.7		1,462.5			
Average Family Income	5,730.8		5,850.2			
Totals				711,944	4,165	85

Transfer for a 4-person family, unbroken: $\dfrac{2000 + 1100 + 100 - \text{Income}}{2}$

Table A-16

4-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Friedman's Negative Income Tax

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	-	1,375	1,375	57	-	-
Under $1000	164	1,293	1,457	6,372	9	8
$1000 - $1999	936	907	1,843	5,601	10	5
$2000 - $2999	2,066	342	2,408	8,162	20	3
$3000 - $3999	3,228	-	3,228	9,281	30	-
$4000 - $4999	4,217	-	4,217	8,230	34	-
$5000 - $5999	5,180	-	5,180	5,611	30	-
$6000 - $6999	6,171	-	6,171	3,782	23	-
$7000 - $7999	7,187	-	7,187	2,525	18	-
$8000 - $9999	8,552	-	8,552	2,861	24	-
$10000 - $15000	11,452	-	11,452	2,213	25	-
Over $15000	24,479	-	24,479	920	23	-
Average Per Capita Income	1,033.9		1,114.8			
Average Family Income	4,135.6		4,459.2			
Totals				55,615	248	16

Transfer for a 4-person, broken, family: $\dfrac{1000 + 1650 + 100 - \text{Income}}{2}$

Table A-17

5-person Families: Total Income, Cost to the Government, and
Transfers Under Friedman's Negative Income Tax

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	—	1,875	1,875	18	—	—
Under $1000	154	1,798	1,952	8,093	16	15
$1000 - $1999	925	1,413	2,338	16,288	38	23
$2000 - $2999	2,068	841	2,909	34,342	100	29
$3000 - $3999	3,229	261	3,490	65,374	228	17
$4000 - $4999	4,215	—	4,215	84,711	357	—
$5000 - $5999	5,189	—	5,189	76,185	395	—
$6000 - $6999	6,176	—	6,176	49,688	307	—
$7000 - $7999	7,191	—	7,191	34,071	245	—
$8000 - $9999	8,569	—	8,569	38,508	330	—
$10000 - $15000	11,550	—	11,550	31,455	363	—
Over $15000	24,813	—	24,813	15,916	395	—
Average Per Capita Income	1,183.3		1,220.3			
Average Family Income	5,916.7		6,101.4			
Totals				454,649	2,774	84

Transfer for a 5-person, unbroken, family: $\dfrac{2000 + 1650 + 100 - \text{Income}}{2}$

Table A-18

5-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Friedman's Negative Income Tax

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	-	1,650	1,650	8	-	-
Under $1000	154	1,573	1,727	3,756	7	6
$1000 - $1999	925	1,188	2,113	3,266	7	4
$2000 - $2999	2,068	616	2,684	4,996	13	3
$3000 - $3999	3,229	36	3,265	5,839	19	-
$4000 - $4999	4,215	-	4,215	5,216	22	-
$5000 - $5999	5,189	-	5,189	3,757	20	-
$6000 - $6999	6,176	-	6,176	2,341	14	-
$7000 - $7999	7,191	-	7,191	1,568	11	-
$8000 - $9999	8,569	-	8,569	1,815	16	-
$10000 - $15000	11,550	-	11,550	1,517	18	-
Over $15000	24,813	-	24,813	698	17	-
Average Per Capita Income	868.4		943.2			
Average Family Income	4,342.0		4,715.8			
Totals				34,777	164	13

Transfer for a 5-person, broken, family: $\dfrac{1000 + 2200 + 100 - \text{Income}}{2}$

Table A-19

6-person Families: Total Income, Cost to the Government, and Transfers Under Friedman's Negative Income Tax

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	–	2,150	2,150	14	–	–
Under $1000	201	2,050	2,251	10,737	24	22
$1000 - $1999	936	1,682	2,618	25,777	67	43
$2000 - $2999	2,068	1,116	3,184	47,509	152	53
$3000 - $3999	3,242	529	3,771	79,093	298	42
$4000 - $4999	4,231	35	4,266	94,037	400	31
$5000 - $5999	5,215	–	5,215	81,157	424	–
$6000 - $6999	6,193	–	6,193	52,264	324	–
$7000 - $7999	7,202	–	7,202	35,236	253	–
$8000 - $9999	8,596	–	8,596	40,489	348	–
$10000 - $15000	11,660	–	11,660	35,132	409	–
Over $15000	25,331	–	25,331	17,357	440	–
Average Per Capita Income	955.7		1,008.4			
Average Family Income	5,734.4		6,050.5			
Totals				518,802	3,139	163

Transfer for a 6-person, unbroken, family: $\dfrac{2000 + 2200 + 100 - \text{Income}}{2}$

Table A-20

6-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Friedman's Negative Income Tax

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	—	1,925	1,925	7	—	—
Under $1000	201	1,825	2,026	4,983	10	9
$1000 - $1999	936	1,457	2,393	5,168	12	7
$2000 - $2999	2,068	891	2,959	6,911	20	6
$3000 - $3999	3,242	304	3,546	7,065	25	2
$4000 - $4999	4,231	—	4,231	5,790	25	—
$5000 - $5999	5,215	—	5,215	4,003	21	—
$6000 - $6999	6,193	—	6,193	2,463	15	—
$7000 - $7999	7,202	—	7,202	1,622	12	—
$8000 - $9999	8,596	—	8,596	1,908	16	—
$10000 - $15000	11,660	—	11,660	1,694	20	—
Over $15000	25,331	—	25,331	761	19	—
Average Per Capita Income	672.6		767.0			
Average Family Income	4,035.4		4,601.8			
Totals				42,375	195	24

Transfer for a 6-person, broken, family: $\dfrac{1000 + 2750 + 100 - \text{Income}}{2}$

Table A-21

Income Distribution Under Friedman's

Negative Income Tax

Income Class	No. of People	Total Income ($000,000's)
Without Income	0	0
Under $1000	857,274	630
$1000 - $1999	1,076,164	931
$2000 - $2999	1,515,684	1,000
$3000 - $3999	2,504,612	2,605
$4000 - $4999	2,382,552	2,926
$5000 - $5999	1,974,824	2,830
$6000 - $6999	1,347,566	2,307
$7000 - $7999	918,278	1,820
$8000 - $9999	1,008,440	2,329
$10000 - $15000	776,533	2,325
Over $15000	373,058	2,488
Total	14,734,985	22,193

Derived from Tables A-9 to A-19, above.

Average Income: $1,506

Cost, to the government,
of Negative Income Tax: $938 million

Table A-22

Unattached Individuals: Total Income, Cost to the Government, and
Transfers Under Theobald's BES Proposal

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	–	1,000	1,000	101,212	100	100
Under $1000	215	807	1,022	429,123	438	346
$1000 - $1999	855	231	1,086	273,705	297	63
$2000 - $2999	1,972	–	1,972	216,676	427	–
$3000 - $3999	3,102	–	3,102	195,073	605	–
$4000 - $4999	4,102	–	4,102	92,774	381	–
$5000 - $5999	5,081	–	5,081	43,761	222	–
$6000 - $6999	6,079	–	6,079	20,884	127	–
$7000 - $7999	7,117	–	7,117	10,916	78	–
$8000 - $9999	8,496	–	8,496	9,991	85	–
$10000 - $15000	11,456	–	11,456	8,068	92	–
Over $15000	27,100	–	27,100	5,077	138	–
Average Per Capita Income	1,763.1		2,053.6			
Average Family Income	1,763.1		2,053.6			
Totals				1,407,260	2,990	509

Transfer for an individual: 1000 + 10%(Income)

Table A-23

2-person Families: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	–	2,000	2,000	8,016	16	16
Under $1000	197	1,823	2,020	49,334	100	90
$1000 – $1999	901	1,189	2,090	139,581	292	166
$2000 – $2999	2,006	–	2,006	123,763	248	–
$3000 – $3999	3,163	–	3,163	148,441	470	–
$4000 – $4999	4,218	–	4,218	132,845	560	–
$5000 – $5999	5,170	–	5,170	105,860	547	–
$6000 – $6999	6,148	–	6,148	81,953	504	–
$7000 – $7999	7,156	–	7,156	57,426	411	–
$8000 – $9999	8,505	–	8,505	58,565	498	–
$10000 – $15000	11,418	–	11,418	37,173	424	–
Over $15000	26,771	–	26,771	19,101	509	–
Average Per Capita Income	2,238.6		2,371.5			
Average Family Income	4,477.3		4,743.0			
Totals				962,057	2,761	272

Transfer for a 2-person, unbroken, family: 2000 + 10%(Income)

Table A-24

2-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class (1)	Average Non-transfer Income ($) (2)	Transfers ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	-	1,600	1,600	3,720	6	6
Under $1000	197	1,423	1,620	22,897	37	33
$1000 - $1999	901	789	1,690	27,983	47	22
$2000 - $2999	2,006	-	2,006	18,005	36	-
$3000 - $3999	3,163	-	3,163	13,259	42	-
$4000 - $4999	4,218	-	4,218	8,179	35	-
$5000 - $5999	5,170	-	5,170	5,221	27	-
$6000 - $6999	6,148	-	6,148	3,862	24	-
$7000 - $7999	7,156	-	7,156	2,643	19	-
$8000 - $9999	8,505	-	8,505	2,760	23	-
$10000 - $15000	11,418	-	11,418	1,792	21	-
Over $15000	26,771	-	26,771	833	22	-
Average Per Capita Income	1,255.0		1,524.9			
Average Family Income	2,510.0		3,049.9			
Totals				111,154	339	61

Transfer for a 2-person, broken, family: 1600 + 10%(Income)

Table A-25

3-person Families: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost of Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	–	2,600	2,600	670	2	2
Under $1000	163	2,453	2,616	19,285	50	47
$1000 - $1999	929	1,764	2,693	42,076	113	74
$2000 - $2999	2,046	759	2,805	71,974	202	55
$3000 - $3999	3,206	–	3,206	114,849	368	–
$4000 - $4999	4,198	–	4,198	122,953	516	–
$5000 - $5999	5,184	–	5,184	101,869	528	–
$6000 - $6999	6,163	–	6,163	73,335	452	–
$7000 - $7999	7,176	–	7,176	50,449	362	–
$8000 - $9999	8,532	–	8,532	52,684	449	–
$10000 - $15000	11,409	–	11,409	35,719	408	–
Over $15000	25,310	–	25,310	15,626	395	–
Average Per Capita Income	1,742.5		1,827.1			
Average Family Income	5,227.5		5,481.2			
Totals				701,489	3,845	178

Transfer for a 3-person, unbroken, family: 2000 + 600 + 10%(Income)

Table A-26

3-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	-	2,200	2,200	395	1	1
Under $1000	163	2,053	2,216	11,375	25	23
$1000 - $1999	929	1,364	2,293	8,436	20	12
$2000 - $2999	2,046	359	2,405	10,470	25	3
$3000 - $3999	3,206	-	3,206	10,259	33	-
$4000 - $4999	4,198	-	4,198	7,570	32	-
$5000 - $5999	5,184	-	5,184	5,024	26	-
$6000 - $6999	6,163	-	6,163	3,456	21	-
$7000 - $7999	7,176	-	7,176	2,322	17	-
$8000 - $9999	8,532	-	8,532	2,482	21	-
$10000 - $15000	11,409	-	11,409	1,722	20	-
Over $15000	25,310	-	25,310	685	17	-
Average Per Capita Income	1,132.0		1,339.6			
Average Family Income	3,395.9		4,018.9			
Totals				64,196	258	39

Transfer for a 3-person, broken, family: 1000 + 1200 + 10%(Income)

Table A-27

4-person Families: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	—	3,200	3,200	124	—	—
Under $1000	164	3,052	3,216	13,729	44	42
$1000 - $1999	936	2,358	3,294	27,939	92	66
$2000 - $2999	2,066	1,372	3,438	56,103	193	77
$3000 - $3999	3,228	—	3,228	103,906	335	—
$4000 - $4999	4,217	—	4,217	133,661	564	—
$5000 - $5999	5,180	—	5,180	113,777	590	—
$6000 - $6999	6,171	—	6,171	80,261	496	—
$7000 - $7999	7,187	—	7,187	54,867	394	—
$8000 - $9999	8,552	—	8,552	60,715	520	—
$10000 - $15000	11,452	—	11,452	45,886	526	—
Over $15000	24,479	—	20,976	20,976	513	—
Average Per Capita Income	1,432.7		1,498.4			
Average Family Income	5,730.8		5,993.4			
Totals				711,944	4,267	185

Transfer for a 4-person, unbroken, family: 2000 + 1200 + 10%(Income)

Table A-28

4-person Families, Broken: Total Income, Cost to the Government, and
Transfers Under Theobald's BES Proposal

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	—	2,800	2,800	57	—	—
Under $1000	164	2,652	2,816	6,372	18	17
$1000 - $1999	936	1,958	2,894	5,601	16	11
$2000 - $2999	2,066	941	3,007	8,162	25	8
$3000 - $3999	3,228	—	3,228	9,281	30	—
$4000 - $4999	4,217	—	4,217	8,230	34	—
$5000 - $5999	5,180	—	5,180	5,611	30	—
$6000 - $6999	6,171	—	6,171	3,782	23	—
$7000 - $7999	7,187	—	7,187	2,525	18	—
$8000 - $9999	8,552	—	8,552	2,861	24	—
$10000 - $15000	11,452	—	11,452	2,213	25	—
Over $15000	24,479	—	24,479	920	23	—
Average Per Capita Income	1,033.9		1,195.7			
Average Family Income	4,135.6		4,782.9			
Totals				55,615	266	36

Transfer for a 4-person, broken family: 1000 + 1800 + 10%(Income)

Table A-29

5-person Families: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	—	3,800	3,800	18	1	1
Under $1000	154	3,661	3,815	8,093	31	30
$1000 - $1999	925	2,968	3,893	16,288	63	48
$2000 - $2999	2,068	1,939	4,007	34,342	138	67
$3000 - $3999	3,229	894	4,123	65,374	270	58
$4000 - $4999	4,215	—	4,215	84,711	357	—
$5000 - $5999	5,189	—	5,189	76,185	395	—
$6000 - $6999	6,176	—	6,176	49,688	307	—
$7000 - $7999	7,191	—	7,191	34,071	245	—
$8000 - $9999	8,569	—	8,569	38,508	330	—
$10000 - $15000	11,550	—	11,550	31,455	363	—
Over $15000	24,813	—	24,813	15,916	395	—
Average Per Capita Income	1,183.3		1,273.5			
Average Family Income	5,916.7		6,367.5			
Totals				454,649	2,895	204

Transfer for a 5-person, unbroken, family: 2000 + 1800 + 10%(Income)

Table A-30

5-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	—	3,400	3,400	8	—	—
Under $1000	154	3,261	3,400	3,756	13	12
$1000 - $1999	925	2,568	3,415	3,266	11	8
$2000 - $2999	2,068	1,539	3,493	4,996	18	8
$3000 - $3999	3,229	494	3,607	5,189	22	4
$4000 - $4999	4,215	—	3,723	5,216	22	—
$5000 - $5999	5,189	—	4,215	3,757	20	—
$6000 - $6999	6,176	—	5,189	2,341	14	—
$7000 - $7999	7,191	—	6,176	1,568	11	—
$8000 - $9999	8,569	—	7,191	1,815	16	—
$10000 - $15000	11,550	—	8,569	1,517	18	—
Over $15000	24,813	—	11,550	698	18	—
			24,813		17	
Average Per Capita Income	868.4		1,046.7			
Average Family Income	4,342.0		5,233.3			
Totals				34,777	182	32

Transfer for a 5-person, broken, family: 1000 + 2400 + 10%(Income)

Table A-31

6-person Families: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class (1)	Average Non-transfer Income ($) (2)	Transfer ($) (3)	New Average Total Income ($) (4)	Number of Units (5)	New Total Income ($000,000's) (6)	Cost to Government ($000,000's) (7)
Without Income	–	4,400	4,400	14	1	1
Under $1000	201	4,219	4,420	10,737	47	45
$1000 - $1999	936	3,558	4,494	25,777	116	92
$2000 - $2999	2,068	2,539	4,607	47,509	220	121
$3000 - $3999	3,242	1,482	4,724	79,093	374	117
$4000 - $4999	4,231	592	4,823	94,037	453	56
$5000 - $5999	5,215	–	5,215	81,157	424	–
$6000 - $6999	6,193	–	6,193	52,264	324	–
$7000 - $7999	7,202	–	7,202	35,236	253	–
$8000 - $9999	8,596	–	8,596	40,489	348	–
$10000 - $15000	11,660	–	11,660	35,132	409	–
Over $15000	25,331	–	25,331	17,357	440	–
Average Per Capita Income	955.7		1,095.2			
Average Family Income	5,734.4		6,570.9			
Totals				518,802	3,409	432

Transfer for a 6-person, unbroken, family: 2000 + 2400 + 10%(Income)

Table A-32

6-person Families, Broken: Total Income, Cost to the Government, and Transfers Under Theobald's BES Proposal

Income Class	Average Non-transfer Income ($)	Transfer ($)	New Average Total Income ($)	Number of Units	New Total Income ($000,000's)	Cost to Government ($000,000's)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Without Income	—	4,000	4,000	7	—	—
Under $1000	201	3,819	4,020	4,983	20	19
$1000 - $1999	936	3,158	4,094	5,168	21	16
$2000 - $2999	2,068	2,139	4,207	6,911	29	15
$3000 - $3999	3,242	1,082	4,324	7,065	30	8
$4000 - $4999	4,231	—	4,231	5,790	25	—
$5000 - $5999	5,215	—	5,215	4,003	21	—
$6000 - $6999	6,193	—	6,193	2,463	15	—
$7000 - $7999	7,202	—	7,202	1,622	12	—
$8000 - $9999	8,596	—	8,596	1,908	16	—
$10000 - $15000	11,660	—	11,660	1,695	20	—
Over $15000	25,331	—	25,331	761	19	—
Average Per Capita Income	672.6		896.8			
Average Family Income	4,035.4		5,380.5			
Totals				42,375	228	58

Transfer for a 6-person, broken, family: 1000 + 3000 + 10%(Income)

Table A-33

Income Distribution Under Theobald's

BES Proposal

Income Class	No. of People	Total Income ($000,000's)
Without Income	0	0
Under $1000	0	0
$1000 - $1999	1,129,916	1,352
$2000 - $2999	1,219,561	1,164
$3000 - $3999	1,982,093	2,396
$4000 - $4999	4,004,716	4,245
$5000 - $5999	1,974,824	2,830
$6000 - $6999	1,347,566	2,307
$7000 - $7999	918,278	1,820
$8000 - $9999	1,008,440	2,330
$10000 - $15000	776,533	2,326
Over $15000	373,058	2,488
Total	14,734,985	23,258

Derived from: Tables A-21 to A-32, above.

Average Income: $1,571.7
Cost, to the government,
of the BES Proposal: $2,006 million

Appendix B

The estimate of expenditures on Social Welfare reached in Table 2-3 is 2,430 million dollars. Table A-8 estimates total transfer payments at 1,680 million dollars. The major reason for this discrepancy is that the estimate in Table A-8 includes only payments to urban and rural non-farm persons.

The rural population in Canada makes up 21 per cent of the total populace, and 39 per cent of the low-income population.[1] Old Age Assistance and Old Age Security are collected by persons over 65. Assuming that older persons are distributed evenly throughout the population, rural expenditures on these items total 21 per cent of all payments made. Similarly, Aid to the Blind and Disabled, Family Allowance and Child Welfare, and Veteran's Pensions and Allowances have 21 per cent of their total expenditure reaching the rural population.

However, Social Aid, Supplementary Allowances, Unemployment Insurance and Assistance, Workmen's Compensation, and municipal expenditures on assistance are received by the low-income population; therefore, 39 per cent of these expenditures are received by the rural population.

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[1]Dominion Bureau of Statistics, Incomes of Canadians, by Jenny R. Podoluk. One of a series of studies in the 1961 Census Monograph programme (Ottawa: Queen's Printer, 1968), Table 8-1, p. 187.

Expenditures categorized as "Other" in Table 2-3 are excluded from this estimate since they are not direct payments to persons, but rather expenditures on such things as orphanges, old folks homes, and foster homes.

Table B-1 indicates removal of rural expenditures from the estimate of Table 2-3.

Table B-1

Expenditure on Social Welfare, Excluding Rural Payments

all levels of Government, Canada, 1961

	Expenditure	Per Cent Rural	Amount Rural ($000,000's)
Old Age Assistance & Old Age Security	669	21	141
Aid to the Blind	7	21	2
Aid to Disabled	36	21	8
Family Allowance	587	21	133
Veteran's Payments	245	21	51
Social Aid & Supplementary Allowance	68	39	26
Unemployment Payments & Workmen's Compensation	680	39	265
Municipal Expenditures	96	39	37
	2,388		663
Non-Rural Expenditure		1,725	

It can be seen that this final figure of 1,725 million is less than 3 per cent error from the estimate of Table A-8.

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